



Imperial Oil

AR68

Shoguen Business Resources (2007)
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2G6



Annual report to shareholders 2001

Company profile

Imperial Oil is one of the largest producers of crude oil in Canada and a major producer of natural gas. The company is the largest refiner and marketer of petroleum products – sold primarily under the Esso brand name – and a major producer of petrochemicals.

Imperial has been a leading member of the Canadian petroleum industry for more than 120 years. The company's mission is to create value for shareholders through the development and sale of hydrocarbon energy and related products.



On the cover

Imperial is well positioned to participate in some of the most promising developments in the Canadian petroleum industry: (from left) the East Coast offshore, the oil sands of Alberta, and the Mackenzie Delta. The company is also the largest refiner and marketer of petroleum products in Canada.

Contents

- 2 Letter to shareholders
- 6 Financial and operating overview
- 11 Imperial and the community
- 15 Review of operations
 - 15 Natural resources
 - 23 Petroleum products
 - 28 Chemicals
- 30 Management and auditors' reports
- 31 Financial statements, accounting policies and notes
- 44 Natural resources segment – supplemental information
- 46 Share ownership, trading and performance
- 47 Quarterly financial and stock trading data
- 48 Corporate information
 - Information for investors

Imperial online

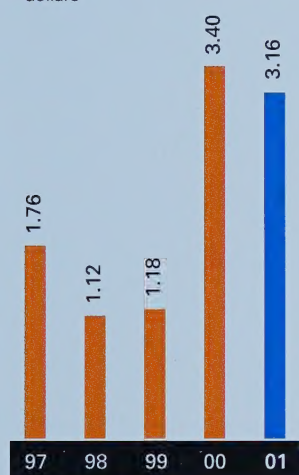
Imperial's Web site provides service to investors, customers and other interested parties. The information for investors section offers a complete range of investor news, reports and presentations. The home page features regular share price updates from the Toronto Stock Exchange, as well as news highlights and easy links to a variety of other corporate information. www.imperialoil.ca

This report contains forward-looking information on future production, project start-ups and future capital spending. Actual results could differ materially as a result of market conditions or changes in law, government policy, operating conditions, costs, project schedules, operating performance, demand for oil and natural gas, commercial negotiations or other technical and economic factors.

Financial highlights

The company again met its long-standing goal of double-digit returns

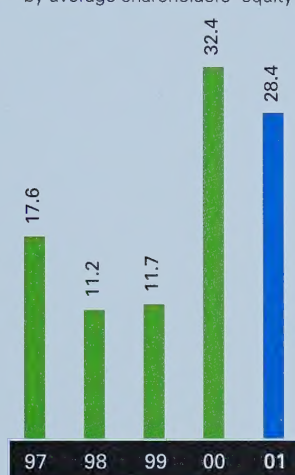
Earnings per share
dollars



Imperial recorded the second-highest earnings in company history, down seven percent on a per-share basis from last year's record.

Return on average shareholders' equity

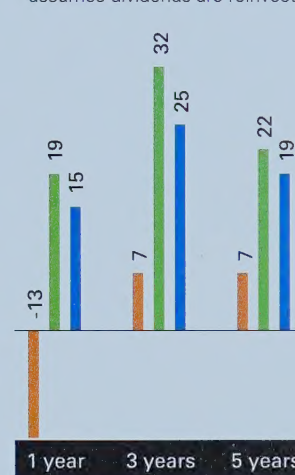
percent, net earnings divided by average shareholders' equity



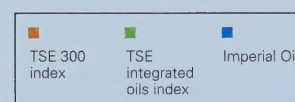
Return on equity remained near the high level achieved last year.

Shareholder returns

percent per year, compounded; based on original investment; assumes dividends are reinvested



Imperial's shares achieved double-digit total returns in 2001, with a five-year return of 19 percent a year.



Financial highlights

	2001	2000	1999	1998	1997
Net earnings (millions of dollars)	1 244	1 420	510	490	815
Cash flow from earnings (a)	1 991	1 844	1 009	1 129	1 319
Capital and exploration expenditures	1 115	679	653	612	639
Return on average capital employed (percent) (b)	22.7	27.0	10.2	9.6	14.3
Per-share information (dollars) (c)					
Net earnings – basic	3.16	3.40	1.18	1.12	1.76
Cash flow from earnings	5.06	4.41	2.34	2.57	2.85
Dividends	0.83	0.78	0.75	0.74	0.73

(a) Cash flow from earnings is defined as net earnings, adjusted for non-cash items, as shown on page 32.

(b) Net earnings and after-tax interest expense (interest expense from page 42, note 11, at statutory corporate tax rate, page 39, note 6), divided by average capital employed (page 36, note 1).

(c) Calculated by reference to the average number of shares outstanding, weighted monthly (page 46).

Letter to shareholders

Imperial Oil had a very good year in 2001. A combination of relatively high energy prices and margins early in the year and solid and reliable company operating performance throughout the year resulted in the second-best earnings in the company's history



R.B. (Bob) Peterson
Chairman and
chief executive officer

Net earnings for the year were \$1,244 million, or \$3.16 a share. Return on capital employed was 23 percent, and all three major operating segments – natural resources, petroleum products and chemicals – achieved a better than 10-percent return.

Total return to shareholders, including dividends and share price appreciation, was 15 percent. Over the past five years, total return to shareholders has averaged 19 percent a year.

At year-end, the company's holdings of cash and marketable securities totalled \$872 million, while total outstanding debt represented 25 percent of the company's capital structure. This is a strong financial position.

These financial results were particularly gratifying in what was a turbulent year for the petroleum industry, as it was for the world in general. A slowing global economy that resulted in recession in some parts of the world led to declining demand for energy and petroleum products as the year progressed. This in turn resulted in volatile and weaker international prices for crude oil and natural gas and declining margins for petroleum products. These trends were intensified and accelerated by the terrorist attacks in the United States in September.

By year-end, international crude oil prices had declined by almost 35 percent. Natural gas prices in North America ended the year down by almost 75 percent from the record-high levels seen early in the year. International wholesale prices for refined

petroleum products also weakened during the year. Refining margins declined sharply toward the end of the year due to weakening demand and high inventory levels. Today, the market fundamentals are weak for all forms of energy and petroleum-based products.

Present indications suggest a challenging time ahead. The strength and timing of economic recovery remains uncertain, as does the outlook for crude oil and natural gas prices. The implications of the tragic events of last September continue to be difficult to assess.

All of this reinforces the need to remain focused on actively managing those aspects of the business that we can control. Our near-term business plans and programs assume a subdued economic recovery and a marketplace characterized by flat product demand, intense competition and volatile commodity prices. As in the past, we will pursue the strategy embodied in our four long-standing corporate priorities of flawless execution, growing profitable sales volumes, achieving a best-in-class cost structure and improving the productivity of our asset mix. This strategy has served the company well in both good and bad economic times.

A consistent commitment to this strategy, with a goal of having each business unit achieve a double-digit return on capital employed, provides the foundation for continuous improvement in the company's financial and operating results.

Flawless execution of operational fundamentals encompasses all aspects of the business, from ensuring safe and reliable operations to providing customers with high-quality products and services. The company's excellent record of operating safely and reliably, including minimizing the number and severity of environmental incidents, was sustained in 2001. Major maintenance turnarounds were completed safely, on time and under budget. All ISO 9000 registrations relating to our business were retained. Significant progress was made on an ongoing program to upgrade retail service station and truck stop networks. We continued to advance the efficiency of our internal work processes through the application of a continuous improvement approach. We also announced plans to open a second Customer Service and Support Centre in Saint John, N.B., in 2002, which will further enhance our ability to respond to customer inquiries and concerns.

Imperial's four priorities – flawless execution, growth in profitable sales volumes, best-in-class cost structure and improved productivity of our asset mix

Our second priority is to grow profitable sales volumes. In 2001, bitumen production at Cold Lake increased from 2000, while construction continued on phases 11 to 13, with steaming operations scheduled to start in late 2002. The company's share of Syncrude production also increased due to a full year of operation of the new Aurora mining site, while construction of a second Aurora mine and an expanded upgrader was approved by the Syncrude owners. Imperial's natural gas production was higher, mainly due to the blowdown of gas caps at mature oil fields in Western Canada. Total petroleum products sales ended the year essentially unchanged from 2000. In chemicals, a project to expand the company's polyethylene manufacturing capacity by 15 percent was completed late in the year.

Significant progress was made in 2001 toward the development of known natural gas resources in the Mackenzie Delta area and a Mackenzie Valley pipeline. Following completion of a feasibility study and the signing of a memorandum of understanding with aboriginal groups in October, the Imperial-led consortium is moving into a project-definition phase with the goal of filing a development application in 2003.

Best-in-class cost performance in all parts of the business is our third priority. Some business units have reached that target and all have developed and are implementing plans to do so as soon as possible. Meeting our cost objectives is challenging, but it is important to strengthening the company's competitive position in the current economic situation.

Our fourth priority is to improve the productivity of our asset mix through a combination of selective investment in high-quality opportunities, timely divestment of non-core or underperforming operations and improving the utilization and productivity of established assets. During 2001, Imperial invested just over \$1.1 billion in ongoing programs and the development of new opportunities, including major expansions at Cold Lake and Syncrude. We continued our program of extensive upgrading of our retail service station network and completed another phase of expansion of our polyethylene plant in Sarnia. Proceeds from asset sales in 2001 were \$46 million.

Capital expenditures in 2002 are again expected to exceed \$1 billion as we advance a number of major opportunities. Actual levels of investment will depend upon market conditions and the continuing economic viability of individual projects. One major item is the construction of facilities to reduce the sulphur content of gasoline, the total costs of which are expected to be more than \$500 million.

On this matter, federal regulations require that the sulphur content of gasoline produced in Canada must average 150 parts per million (ppm) between July 1, 2002 and January 1, 2005, and must not exceed 30 ppm thereafter. Imperial plans to meet the interim average requirement by modifying ongoing operations and producing 30-ppm gasoline by late 2003, ahead of the government's legislated date.

In summary, it has been a very good year for Imperial. We continue to have solid business plans and programs aimed at the development of quality long-term growth opportunities, as well as continuous improvement in results from established operations. Notwithstanding the current uncertainties, the long-term outlook for Imperial and our industry remains positive and encouraging. The efficient use of affordable energy is a vital input to long-term economic growth and a rising standard of living in Canada and around the world. Today, more than 60 percent of Canada's total energy requirements are supplied by crude oil and natural gas. Imperial currently supplies about one-sixth of Canada's oil and gas needs, and is well positioned to continue as a strong competitor. The company has the financial, technical and human resource capabilities, along with a large and high-quality resource base and slate of investment opportunities that can form the basis for sustained long-term growth in shareholder value. We have also demonstrated the flexibility to adapt to volatile markets and changing economic conditions.

And once again, I would like to thank employees for their ongoing contributions to the company's success.

In closing, I would note that two valued nonemployee members of Imperial's board of directors will not stand for re-election this spring. They are Dick Currie, who has served as a director since October 1987, and Red Wilson, who joined the board in January 1999. On behalf of their fellow directors, shareholders and employees I want to express our appreciation for their service to the company and wish them well in the future.



February 25, 2002

Financial and operating overview

The dividend rate increased, the company repurchased 19.1 million shares for \$812 million and capital expenditures rose by more than 60 percent to just over \$1.1 billion

Net earnings were \$1,244 million, or \$3.16 a share, down from \$1,420 million, or \$3.40 a share in 2000 (1999 – \$510 million or \$1.18 a share).

The main reasons for the decrease in earnings were lower crude oil prices, increased planned maintenance, higher environmental expenses and the absence of gains on the sale of the company's interest in pipeline assets and producing properties recorded in 2000. Those factors were partially offset by stronger industry petroleum product margins and increased production of natural gas and crude oil. The company also benefited from a reduction in Alberta and Ontario provincial tax rates enacted in the second quarter of 2001 and lower interest expense.

Included in 2001 earnings was an after-tax gain of \$7 million on asset sales, down from a gain of \$96 million in 2000 (1999 – \$17 million).

Earnings in the natural resources and chemicals business segments were lower in 2001, while earnings from petroleum products reached record levels. A detailed discussion of segmented operating results begins on page 15.

Earnings from corporate and other accounts were negative \$73 million in 2001, compared with negative \$117 million in 2000 (1999 – negative \$108 million). The principal reason for this was lower interest expense resulting from lower interest rates.

Cash flow from earnings was \$1,991 million, up from \$1,844 million in 2000 (1999 – \$1,009 million).

Cash provided from operating activities was \$2,004 million, compared with \$2,089 million in 2000 (1999 – \$1,470 million). Increased cash flow from earnings was more than offset by changes in working capital.

In June, the company renewed its normal course issuer bid (share buyback) program for another 12 months. During 2001, Imperial purchased 19.1 million shares for \$812 million under this program. Since the buyback program was initiated in 1995, the company has purchased 202.4 million shares at a total cost of \$5,156 million.

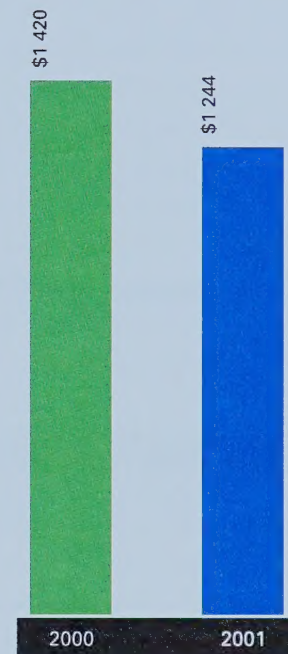
In 2001, the company declared dividends totalling 83 cents a share, an increase from 78 cents in 2000 (1999 – 75 cents). This was the seventh consecutive year of dividend increases. The company has paid dividends in every year since 1891.

Imperial retains a strong financial position. At the end of 2001, the company's balance of cash and marketable securities was \$872 million, compared with \$1,020 million at the end of 2000 (1999 – \$834 million).

During 2001, a \$200 million (U.S.) debenture with an interest rate of 8.3 percent came due and was retired. The total repayment in Canadian funds was \$308 million. The debenture was replaced by \$309 million in short-term commercial paper. The company also redeemed \$45 million (U.S.) of its 8¾-percent sinking-fund debentures due in 2019 for \$71 million (Canadian) and replaced it with short-term commercial paper. At the end of 2001, total debt outstanding – including \$460 million of commercial paper – was \$1,366 million, compared with \$1,295 million at the end of 2000 (1999 – \$1,239 million). At the end of 2001, debt represented about 25 percent of the company's capital structure, the same as the previous year (1999 – 23 percent).

Debt-related interest costs decreased in 2001 to \$77 million from \$106 million in 2000 (1999 – \$128 million) because of replacement of long-term, fixed-rate debt with floating-rate, short-term debt at lower interest rates. The average effective interest rate on the company's debt was 5.1 percent in 2001, compared with 7.3 percent in 2000 (1999 – 7.2 percent).

Factors affecting Imperial's 2001 earnings
millions of dollars



Negative factors

- Lower crude oil prices: \$266 million
- Higher expenses: \$178 million
- Absence of 2000 asset sales: \$89 million

Positive factors

- Higher product margins: \$174 million
- Increased production of oil and gas: \$83 million
- Lower income tax rates: \$56 million
- Lower interest expense: \$44 million

Net earnings by segment

millions of dollars	2001	2000	1999	1998	1997
Natural resources	941	1 165	560	249	483
Petroleum products	353	313	15	244	284
Chemicals	23	59	43	87	126
Corporate and other	(73)	(117)	(108)	(90)	(78)
Net earnings	1 244	1 420	510	490	815

Financial and operating overview

Toronto Stock Exchange – IMO closing share price

dollars per share, adjusted for 1998 share split



Imperial's shares have gained an average of 13 percent a year since the beginning of 1992. Including dividends, the total return to shareholders averaged more than 17 percent a year.

Imperial's ability to meet its debt obligations remained strong in 2001. On an earnings basis, interest coverage was 25.6 times, compared with 22.9 times in 2000 (1999 – 7.6 times). On a cash flow basis, interest coverage was 35.7 times, compared with 29 times in 2000 (1999 – 13.6 times).

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. The company does not use financing structures for the purpose of altering accounting outcomes or removing debt from the balance sheet. Pages 34 and 35 of the annual report include a summary of the significant accounting policies followed by Imperial.

Financial percentages and ratios

	2001	2000	1999	1998	1997
Total debt as a percentage of capital (a)	25.2	24.6	23.3	30.5	28.3
Interest coverage ratios					
Earnings basis (b)	25.6	22.9	7.6	5.6	12.0
Cash-flow basis (c)	35.7	29.0	13.6	11.0	17.2

(a) Current and long-term portions of debt (page 33 and page 38, note 3), foreign-exchange loss on currency swap and guarantees to third parties divided by debt, foreign-exchange loss on currency swap, guarantees to third parties and shareholders' equity (page 33).

(b) Net earnings, debt-related interest expense (page 42, note 11) and income taxes (page 31) divided by debt-related interest expense.

(c) Cash flow from earnings, current income tax expense (page 39, note 6) and debt-related interest expense divided by debt-related interest expense.

Earnings sensitivities

millions of dollars after tax

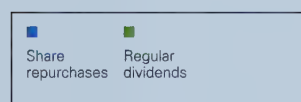
Two dollars (U.S.) a barrel change in crude oil prices	+(–)	\$ 120
Thirty cents a thousand cubic feet change in natural gas prices	+(–)	\$ 20
One cent a litre change in sales margins for total petroleum products	+(–)	\$ 165
Two cents (U.S.) a pound change in sales margins for polyethylene	+(–)	\$ 15
One-half percent decrease (increase) in U.S. short-term interest rates	+(–)	\$ 3
Six cents decrease (increase) in the value of the Canadian dollar versus the U.S. dollar	+(–)	\$ 85

Cash payments to shareholders

millions of dollars



Total payments to shareholders exceeded \$1.1 billion, as the company continued its share buyback program and increased the dividend rate by more than six percent.



Imperial is exposed to a variety of financial, operating and market risks. Some of these risks are within the company's control; others are not. For controllable risks, the company applies specific risk management strategies to reduce the likelihood of loss. For example, Imperial's operations integrity management framework provides a disciplined and structured approach to running all company facilities safely and reliably. During the year, Imperial undertook additional measures to protect employees and facilities, as well as to ensure the safe delivery of products. The company's comprehensive framework of business controls also continues to be strengthened.

Risks that are not within the company's control include changes in international commodity prices and currency exchange rates. Imperial's potential exposure to those risks is summarized in the earnings sensitivities table on page 8. The amount quoted to illustrate the impact of each sensitivity (for example, the \$2 (U.S.) a barrel change in crude oil prices) represents a change of about 10 percent in the value of the commodity or rate in question at the end of 2001.

Each sensitivity calculation shows the impact on earnings that results from a change in one factor, after tax and royalties and holding all other factors constant. While these sensitivities are applicable under current conditions, they may not apply proportionally to larger fluctuations.

Employees

	2001	2000	1999	1998	1997
Number of full-time employees at December 31	6 740	6 704	6 550	6 689	7 096
Total payroll and benefits (millions of dollars) (a)	902	814	856	771	878

(a) Includes both the company's payroll and benefit costs and its share of the Syncrude joint-venture payroll and benefit costs.

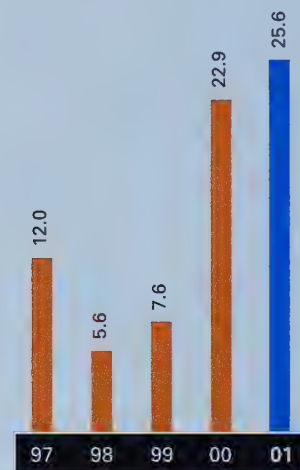
Imperial does not use derivative markets to speculate on the future direction of currency or commodity prices and does not sell forward any part of the production from any business segment. Interest and currency swaps are used within limits to manage the interest rate or currency exposure of the corporation's debt; however, no contracts of this type were undertaken in 2001.

Capital and exploration expenditures increased to \$1,115 million in 2001 from \$679 million in 2000 (1999 – \$653 million). The funds were used mainly to expand production at Cold Lake and Syncrude, maintain oil and gas production capacity, improve refining operations, enhance the company's retail gasoline marketing network and increase chemical production capacity.

Capital and exploration expenditures are again expected to exceed \$1 billion in 2002. These expenditures will be funded by a combination of internally generated funds and additional debt. Further information on planned expenditures is contained in the reports on the three operating segments.

Expenditures in Canada on research and development were \$37 million in 2001, up from \$31 million in 2000 (1999 – \$34 million). Those funds were directed mainly toward developing improved methods for heavy oil recovery and higher-quality lubricant products. In 2001, 18 original patents were awarded.

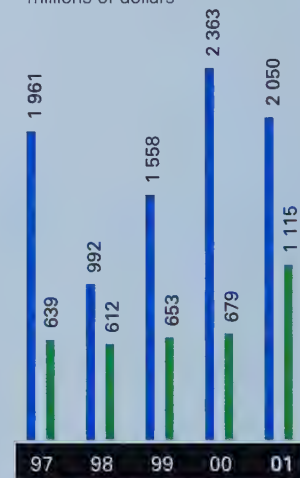
Interest coverage ratio
earnings basis



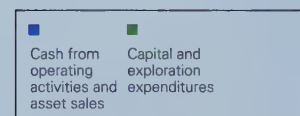
The company's ability to meet debt obligations rose during the year, as long-term debt bearing higher interest rates was converted to lower-interest short-term debt.

Cash flows before financing and before investing in short-term securities

millions of dollars



Cash generated from operations continued to exceed expenditure requirements, even as capital expenditures rose by more than 60 percent to just over \$1.1 billion.



Imperial and the community

Imperial believes that social and environmental responsibilities go hand in hand with financial responsibility. These include operating safely and reliably, providing employees with challenging and rewarding work and supporting programs that enhance the quality of life for Canadians.

Safeguarding people and the environment

Imperial shares with all Canadians the goal of protecting the environment and safeguarding the health and safety of employees, contractors and the general public. During 2001, Imperial made capital investments of \$80 million on safety and environment-related projects.

Among other measures, the company adheres to an operations integrity management system (OIMS) that provides a disciplined approach to operating facilities safely and reliably. Lloyd's Register Quality Assurance Ltd., a respected authority, has attested that OIMS meets the internationally recognized ISO 14001 requirements for a comprehensive system to understand and control the environmental aspects of operations.

Imperial's safety record continues to be among the best in Canadian industry. In 2001, the company's safety performance for employees and contractors combined was the best on record. The frequency of work-related injuries and illnesses involving employees was about 30 percent lower than in 2000, while the frequency of incidents involving contractors was the lowest on record. Sadly, however, an Imperial employee died from a long-term work-related illness stemming from past exposure.

In natural resources operations, the frequency of incidents involving employees and contractors combined was significantly better than the previous best performance. Among other safety highlights, the Sarnia Polymer Technology Centre completed 35 years without a single recordable injury; the transportation and pipeline groups in

the products and chemicals division each completed five years without a recordable employee safety incident; Dartmouth refinery completed a full year without a recordable incident involving either employees or contractors; and Nanticoke refinery has not had a lost-time contractor injury in more than three years.

During 2001, Strathcona refinery received the occupational health and safety award of the year from the Alberta Petro-Chemical Safety Council for its record of having had no lost-time incidents in 2000. Customer service and distribution operations received a Chemical Shipper Award from Canadian Pacific Railways for their handling of hazardous materials. Eleven operating facilities in natural resources operations received safety awards from the Canadian Gas Processors' Association.

Reflecting its long-standing commitment to safeguarding the health and well-being of employees, in 2001 the company completed its third major health study. The latest study tracks the health experience of 25,000 current and former employees hired between 1964 and 1994. Imperial has been conducting such studies since 1979. This recent research reported on mortality and incidence of cancer, as well as examining relationships between selected potential workplace exposures and possible health outcomes. The results confirmed previous findings that Imperial employees have lower mortality rates than the general Canadian population. Employees were also found to have a lower overall incidence of cancer.

The number of potentially hazardous operating incidents such as spills and fires at company facilities was reduced to a new record low in 2001. The number of environmental compliance notifications, including administrative incidents as well as substance releases from operations that temporarily exceeded government guidelines, increased from 2000.

Imperial's most recent submission to the federal government's National Pollutant Release Inventory (NPRI) program, which tracks ongoing emissions from operations and other releases of

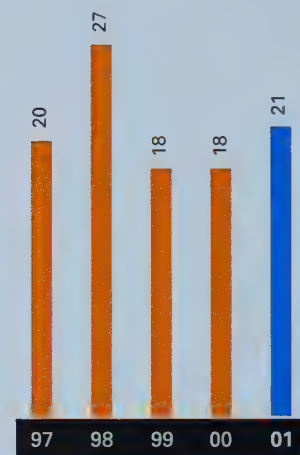
designated substances to air, land and water, reported that emissions in 2000 were about the same as in the previous two years. Imperial's emissions are now about 20 percent lower than in 1996.

Work continued during 2001 on the cost-effective cleanup of facilities such as abandoned oil and gas wells and decommissioned service stations and refineries, using a range of site remediation technologies and methods.

Imperial provides local communities in which it has significant operating facilities with regular reports on the environmental, health and safety performance of its operations, as well as such information as company contacts and emergency-response procedures. During 2001, reports were published covering three of the company's refineries and the Cold Lake operations. Facility reports, as well as the company's annual safety, health and environment report, can be found on Imperial's Web site.

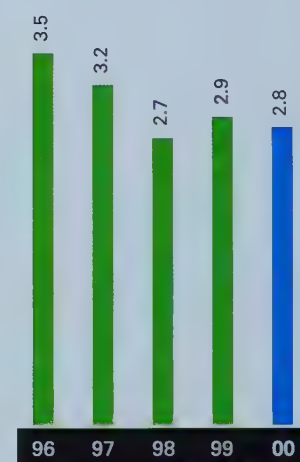
The company continues to look for cost-effective ways to improve the energy efficiency of its operations. For example, Imperial's refineries improved their overall energy efficiency by about 10 percent between 1994 and 2000, as measured by the recognized Solomon Energy Intensity Index. In natural resources operations, Imperial recovers

Environmental compliance notifications
number of notifications



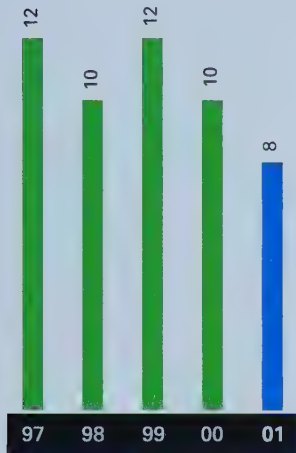
The number of administrative and other incidents, including substance releases from operations that temporarily exceeded government guidelines, increased from 2000.

NPRI – emissions and transfers
thousands of tonnes



Ongoing emissions from company operations in 2000, the year covered by Imperial's most recent NPRI reporting, were about the same as in the previous two years.

Operating incidents costing more than \$75,000



The number of potentially hazardous operating incidents such as spills and fires was reduced to a record-low level in 2001.

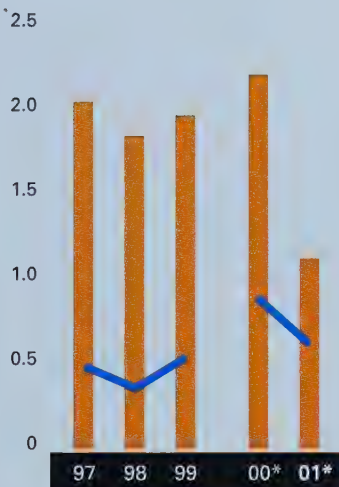
about 99.7 percent of “solution gas” associated with crude oil production in Alberta that would otherwise be flared or vented into the air. This is among the best records in the industry. In 2001, the total amount of gas flared and vented from natural resources operations was further reduced from 2000.

Imperial also encourages the wise and responsible use of energy by its customers. For example, in 2001 the company helped sponsor the Clean Air Foundation of Ontario’s “Car Heaven” program, which promotes retirement of older, high-emitting vehicles. The company also participated in the

Ontario government’s smog alert program, advising employees of actions they could take to help minimize smog formation.

The company’s 2001 submission to the Climate Change Voluntary Challenge and Registry (VCR) program reported that emissions of carbon dioxide and other greenhouse gases from its operations in 2000 were slightly higher than in 1999, mainly due to increased steam generation at Cold Lake and increased refinery processing. The VCR report can be found on the company’s Web site at www.imperialoil.ca.

Employee and contractor safety performance total recordable incidents per 200,000 hours worked



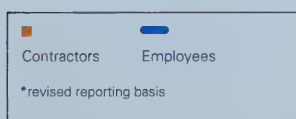
Imperial’s overall safety performance in 2001 was the best on record. The frequency of work-related injuries and illnesses for employees was 30 percent lower than in 2000. The frequency of incidents involving contractors was the lowest on record.

Providing a supportive work environment for employees

Imperial believes that capable and dedicated employees are a major strength and competitive advantage. The company is committed to attracting and retaining talented and high-performing people by providing challenging and rewarding careers.

The number of full-time employees at year-end 2001 was 6,740, compared

with 6,704 at the end of 2000 (1999 – 6,550). The company continued to recruit new employees from universities and community colleges across Canada, and also continued to implement its structured program of identifying employees’ capability development needs and providing appropriate training to ensure attainment of corporate objectives.

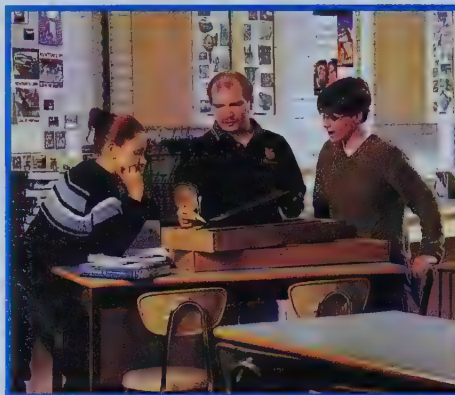


Enhancing the quality of life for Canadians

Imperial supports programs and activities that enhance the quality of life for Canadians in general and especially for those communities in which it has significant operations.

In 2001, the Imperial Oil Charitable Foundation contributed about \$6.7 million to more than 400 organizations across Canada. Programs directed at youth and education received about 60 percent of the total.

Among the major donations announced by the Foundation during 2001 were \$1 million to the University of Calgary Faculty of Education to help teachers better utilize information technology; \$250,000 to the University of Montreal toward a laboratory for science teacher education; \$200,000 to St. Francis Xavier University in Nova Scotia for its Science Education Centre; \$300,000 to The Learning Partnership for its "Inquire! Invent! Innovate!" program; and \$150,000 to the new Fossil Gallery at the Canadian Museum of Nature in Ottawa. The Foundation's University Research Grant program made 48 grants totalling \$650,000 to support research in areas of interest to Imperial's business at 18 Canadian universities.



The company's award-winning partnership with a high school in Cold Lake, Alta., provides students with exposure to careers in the petroleum and other industries and allows them to develop and display their capabilities. Here, as part of a jointly-developed course entitled "Engineering and Geology of Oil Sands," company environmental advisor Cyril Jenkins shows a core sample of the Cold Lake bitumen deposits to grade 12 student Brianne Schroh (left), while teacher Deana Hill looks on.

In addition to corporate contributions, Imperial supports and encourages employees, annuitants and associates who voluntarily contribute their time and skills to not-for-profit groups. In 2001, the Foundation made 230 grants to such groups under its Volunteer Involvement Program. A similar program for Esso retailers was introduced in 2001. Also during the year, about 150 employees and annuitants served as volunteers for Junior Achievement Canada, of which the company has long been a major corporate sponsor and supporter.

Imperial employees and annuitants also give generously to deserving causes. For example, in 2001, employees and

annuitants contributed \$1.3 million to the United Way/Centraide. In addition, employees and annuitants made contributions to the Canadian Red Cross in support of efforts to assist victims of the September 11 disaster in the United States. Under a three-for-one matching program sponsored by Exxon Mobil Corporation, those contributions resulted in a total donation of more than \$800,000.

Further information on the Imperial Oil Charitable Foundation and its associated programs and sponsorships can be found on the company's Web site at www.imperialoil.ca.

Natural resources

Earnings decreased from the record levels achieved in 2000, reflecting lower crude oil prices.

Earnings from natural resources were \$941 million, down from \$1,165 million in 2000 (1999 – \$560 million). The main reasons for the decrease were lower crude oil prices, lower gains on divestments and higher maintenance expenses. Those factors more than offset the effect of increased production of natural gas and crude oil and lower provincial tax rates. Included in earnings was a gain of \$3 million from the sale of assets, compared with \$86 million from asset sales in 2000 (1999 – \$4 million). Return on average capital employed was 39.6 percent, compared with 49.8 percent in 2000 (1999 – 21.8 percent).

Resources revenues were \$5.3 billion, down from \$5.9 billion in 2000 (1999 – \$3.9 billion), largely because of lower crude oil prices.

Crude oil prices declined

World oil prices declined in 2001 from the levels reached in 2000, reflecting weakening international oil demand as the global economy slowed. The price of Brent crude oil, the most actively traded North Sea crude and a common benchmark of world oil markets, declined from a high of \$28.52 (U.S.) a barrel in May to a low of \$18.68 a barrel in December. The average price of

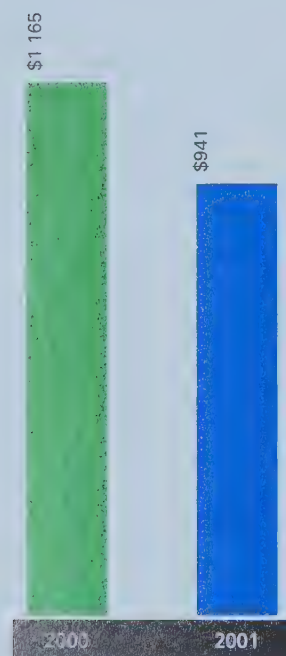
By year-end, construction was more than 50 percent complete on a \$650-million expansion of the company's bitumen-recovery operation at Cold Lake, Alta. The expansion will add an average of 30,000 barrels a day to production over a 30-year period. Start-up is expected late in 2002.



Natural resources

Factors affecting earnings from natural resources

millions of dollars



Negative factors

- Lower crude oil prices: \$266 million
- Absence of 2000 asset sales: \$83 million
- Higher expenses: \$49 million

Positive factors

- Lower provincial tax rate: \$91 million
- Increased production of oil and gas: \$83 million

Brent crude was \$24.47 a barrel in 2001, down from \$28.40 in 2000 (1999 – \$18). The company's realizations on sales of conventional Canadian crude oil decreased in line with reductions in international prices to \$35.56 (Canadian) a barrel in 2001 from \$41.52 in 2000 (1999 – \$24.75).

Markets for Canadian heavy crudes, including blended bitumen from Cold Lake, weakened even more than those for lighter crude oil. The main reason for the weakness was a surplus of Canadian heavy oil in its primary market area, the U.S. Midwest. The price of Bow River, a benchmark Canadian heavy crude oil, fell by 27 percent, compared with the 12-percent drop in prices for Canadian light crude oils.

Average prices for Canadian natural gas increased significantly in 2001, reflecting tighter North American market conditions. The annual average of 30-day spot prices for natural gas at the AECO hub in Alberta was \$6.30 a thousand cubic feet in 2001, up from

\$5.02 in 2000 (1999 – \$2.96). However, there was considerable volatility during the year, with prices reaching a maximum of \$10.91 during the first quarter, then falling to \$3.30 by the fourth quarter.

Imperial's average realizations on natural gas sales increased to \$5.72 a thousand cubic feet from \$4.99 in 2000 (1999 – \$2.66).

Crude oil production increased

The company's gross production of crude oil and natural gas liquids increased to 267,000 barrels a day from 260,000 barrels in 2000 (1999 – 284,000). Net production increased to 237,000 barrels a day from 213,000 barrels in 2000 (1999 – 237,000).

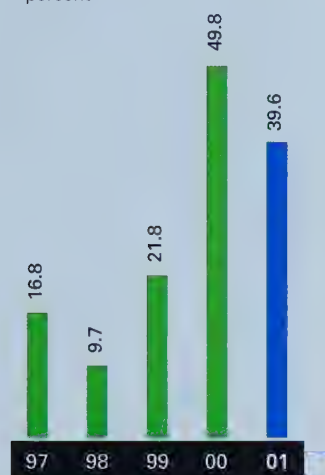
Net bitumen production at the company's Cold Lake facility was 121,000 barrels a day, up from 102,000 barrels in 2000 (1999 – 107,000). The main reasons for the increase were the timing of steaming cycles and lower average royalties.

Financial statistics

millions of dollars	2001	2000	1999	1998	1997
Net earnings	941	1 165	560	249	483
Revenues	5 321	5 900	3 904	2 392	3 583
Capital and exploration expenditures					
Exploration	49	56	29	51	55
Production	109	110	138	185	139
Heavy oil	588	268	263	162	239
Total capital and exploration expenditures	746	434	430	398	433
Capital employed at December 31	2 590	2 168	2 510	2 618	2 494
Return on average capital employed (percent)	39.6	49.8	21.8	9.7	16.8

Natural resources – return on average capital employed

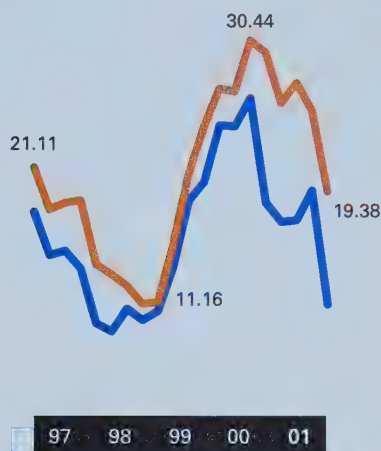
percent



Natural resources operations continued to generate substantial returns despite lower prices for crude oil and falling prices for natural gas.

Crude oil prices

U.S. dollars a barrel – quarterly average



Prices for both heavy and conventional oil fell steadily as the year progressed.

— Brent crude — Canadian heavy oil (Bow River)

Natural gas average prices

dollars a thousand cubic feet – AECO Hub 30-day spot



Natural gas realizations rose to more than \$10 a thousand cubic feet in the first quarter of 2001, then fell sharply through the balance of the year.

Crude oil and NGLs – production and sales (a)

thousands of barrels a day	2001		2000		1999		1998		1997	
	gross	net	gross	net	gross	net	gross	net	gross	net
Conventional crude oil	55	42	60	46	65	51	70	57	82	64
Cold Lake	128	121	119	102	132	107	137	126	114	108
Syncrude	56	52	51	42	56	55	52	52	52	47
Total crude oil production	239	215	230	190	253	213	259	235	248	219
NGLs available for sale	28	22	30	23	31	24	20	16	22	19
Total crude oil and NGL production	267	237	260	213	284	237	279	251	270	238
Cold Lake sales, including diluent (b)	167		156		173		185		153	
NGL sales	43		42		43		36		39	

Natural gas – production and sales (a)

millions of cubic feet a day	2001		2000		1999		1998		1997	
	gross	net	gross	net	gross	net	gross	net	gross	net
Production (c)	572	466	526	459	469	413	439	379	454	379
Production available for sale (d)	482	376	345	277	300	244	287	227	278	203
Sales	502		419		393		356		354	

(a) Gross production is the company's share of production (excluding purchases) before deducting the shares of mineral owners or governments or both. Net production excludes those shares.

(b) Includes natural gas condensate added to the Cold Lake bitumen to facilitate transportation to market by pipeline.

(c) Production of natural gas includes amounts used for internal consumption with the exception of amounts reinjected.

(d) Production available for sale excludes amounts used for internal consumption and amounts reinjected. Production available for sale in 2001 reflects a change in the supply of natural gas to company operations from company-produced gas to third-party purchased gas.

Natural resources

The royalty applied to Cold Lake production is based on a share of net revenue, which is determined by deducting operating costs and capital expenditures from total revenue. Royalties at Cold Lake decreased in 2001 because of lower bitumen prices and increased capital expenditures. The average rate as a percentage of gross production in 2001 was about five percent, down from 14 percent in 2000 (1999 – 18 percent).

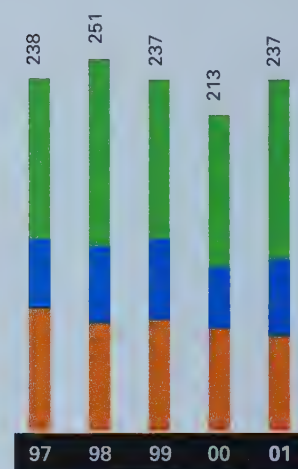
At Syncrude, in which Imperial has a 25-percent interest, gross production of upgraded crude oil increased to 223,000 barrels a day from 203,000 barrels in 2000 (1999 – 223,000). The main reason for the increase was the start-up of the Aurora mine during the second half of 2000. However, operating difficulties prevented the mine from producing at its design capacity and there were ongoing problems with the reliability of upgrading operations. Work continues to improve overall operating performance. Imperial's share of average net production increased to 52,000 barrels a day from 42,000 barrels in 2000 (1999 – 55,000) because of lower royalties resulting from increased capital expenditures.

Net production of conventional oil declined to 42,000 barrels a day from 46,000 barrels in 2000 (1999 – 51,000). The main reasons were natural reservoir decline and the sale of the company's interests in several producing properties during the fourth quarter of 2000.

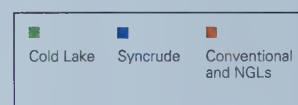
Net production of natural gas increased to 466 million cubic feet a day in 2001 from 459 million in 2000 (1999 – 413 million). The increase includes greater deliveries from the Sable Offshore Energy Project, which went into production at the end of 1999, and higher production from natural gas caps overlaying former oil fields at Bonnie Glen and Golden Spike in Alberta.

Net production available for sale increased to 376 million cubic feet a day from 277 million in 2000 (1999 – 244 million). The main reasons for the increase were higher production and the use in company operations of natural gas supplied by third parties rather than natural gas produced by Imperial.

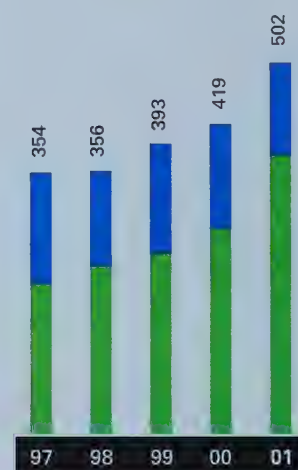
Crude oil and NGLs – net production by source
thousands of barrels a day



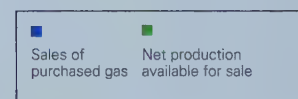
Net production of crude oil increased, mainly because of lower royalties resulting from increased capital expenditures at Cold Lake and Syncrude.



Natural gas sales
millions of cubic feet a day



Increased sales of natural gas included production from the Sable Offshore Energy Project and gas caps in Alberta.





Mackenzie Delta natural gas

During 2001, significant progress was made toward the eventual development of already-discovered natural gas in the Mackenzie Delta region of Canada's Western Arctic for delivery to southern markets. Imperial is the largest holder of onshore natural gas in the region, with the Taglu gas field, discovered in 1971, estimated to contain three trillion cubic feet of natural gas.

In October, the Mackenzie Delta Producers Group, led by Imperial, and the Mackenzie Valley Aboriginal Pipeline Corporation, which represents aboriginal peoples of the Northwest Territories, signed a memorandum of understanding to pursue economic and timely development of a Mackenzie Valley pipeline.

In January 2002, the group announced it had concluded a preliminary feasibility study and would begin work on the applications for regulatory approval.

Commercial development of Mackenzie Delta gas is a long-term, capital-intensive opportunity. A decision to proceed with development of a pipeline cannot be made before the regulatory review and approval process is complete and permits to construct are received.



Children from the K'alemi Dene School in the aboriginal community of Ndilo, near Yellowknife, N.W.T., watch Nellie Cournoyea of the Mackenzie Valley Aboriginal Pipeline Corporation and K.C. Williams of Imperial sign an historic memorandum of understanding in October 2001.

Natural resources

Total operating expenses increased in 2001. Higher prices for electricity and for purchased natural gas at Cold Lake, combined with higher expenses at Syncrude, offset efficiency improvements in other parts of the operation.

Proceeds from divestments and property sales in natural resources were \$8 million in 2001, down from \$234 million in 2000 (1999 – \$4 million).

Capital expenditures increased

Capital and exploration expenditures in 2001 were \$746 million, up from \$434 million in 2000 (1999 – \$430 million). Significant items in

2001 included the continuing construction of the next three phases of development at Cold Lake, further expansion at Syncrude, exploration off the coast of Nova Scotia, productivity maintenance at existing Cold Lake phases and development drilling for conventional oil and gas.

At Cold Lake, by year-end, engineering was essentially completed and construction was more than 50 percent complete on Imperial's \$650-million project to develop phases 11 to 13 of bitumen production. The project is basically on budget and on schedule for steam injection to start in late 2002.

Bitumen production will begin increasing toward capacity in early 2003. The new phases are expected to add an average of 30,000 barrels a day of bitumen production over their projected 30-year life.

To improve overall energy efficiency and help reduce energy costs, the project includes a 170-megawatt cogeneration plant that will provide steam for the three latest phases and generate sufficient electricity to supply all of the company's Cold Lake operations. Surplus electricity will be available for sale to the Alberta power pool.

Proved reserves of crude oil and natural gas (a)

Year ended	Crude oil and NGLs millions of barrels								Natural gas billions of cubic feet	
	Conventional		Cold Lake		Syncrude		Total		gross	net
	gross	net	gross	net	gross	net	gross	net		
1997	308	259	827	713	685	616	1 820	1 588	1 869	1 612
1998	280	235	776	667	665	597	1 721	1 499	2 045	1 752
1999	267	225	1 016	878	645	577	1 928	1 680	1 964	1 692
2000	233	196	972	851	679	610	1 884	1 657	1 852	1 572
2001	197	165	926	807	914	821	2 037	1 793	1 670	1 414

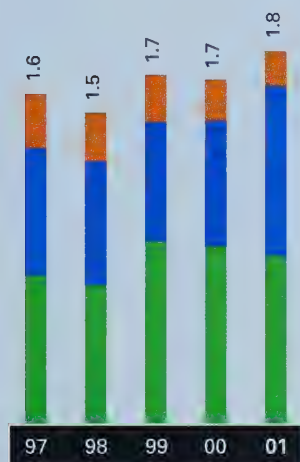
(a) Gross reserves are the company's share of reserves before deducting the shares of mineral owners or governments or both. Net reserves exclude these shares.

Average realizations and prices

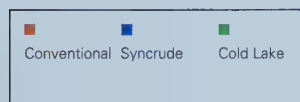
dollars	2001	2000	1999	1998	1997
Conventional crude oil realizations (a barrel)	35.56	41.52	24.75	17.45	25.03
Natural gas realizations (a thousand cubic feet)	5.72	4.99	2.66	2.01	2.11
Par crude oil price at Edmonton (a barrel)	39.64	45.02	27.80	20.37	27.90
Heavy crude oil price at Hardisty (Bow River, a barrel)	25.11	34.49	23.51	14.67	21.13

Crude oil and NGLs – net proved reserves

billions of barrels

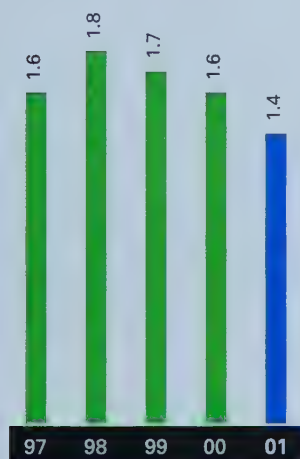


A major new development at Syncrude added 230 million barrels to Imperial's proved reserves, increasing the year-end total by eight percent.



Natural gas – net proved reserves

trillions of cubic feet



Proved reserves of natural gas declined, as additions did not offset increased production.

Total capital expenditures at Cold Lake in 2001 were \$391 million. Of that total, \$313 million was spent on the development of phases 11 to 13. Another \$45 million was spent on productivity maintenance of phases 1 to 10. A total of 307 development wells were drilled in 2001 – 212 of those were related to the development of phases 11 to 13 and the balance were for productivity maintenance in existing operations.

Capital spending at Syncrude in 2001 was \$208 million, compared with \$125 million in 2000 (1999 – \$184 million). The funds were used mainly for expansion of the Aurora mine and upgrading facilities.

Syncrude expansion approved

In June 2001, Imperial and the other Syncrude owners approved a significant expansion project that will increase capacity to more than 360,000 barrels a day of upgraded light crude oil by early 2005. This phase of expansion includes a second mine at the Aurora site and additional upgrading capacity. Total reserves being developed by the expansion are 920 million barrels. Imperial's share – 230 million barrels – was added to the company's proved oil reserves in 2001. Imperial's share of the project costs will be about \$1.1 billion.

Spending on development drilling in Western Canada was about \$46 million, unchanged from the previous year (1999 – \$23 million). The major focus was on natural gas opportunities.

Exploration expenditures were \$49 million, down from \$56 million in 2000 (1999 – \$29 million).

Imperial's exploration strategy in Western Canada is to search selectively for hydrocarbons on its existing acreage, and especially near established facilities. Higher-risk acreage is evaluated through shared ventures with other companies.

Natural resources

Off the coast of Nova Scotia, Imperial holds about a 20-percent interest in exploration acreage in the vicinity of the Sable project. An exploratory well was drilled on this acreage in 2001, without commercial success. In 1999, the company acquired a 100-percent interest in two exploration leases in deeper water off Nova Scotia and, in 2001, acquired a one-sixth interest in three additional deepwater leases. Seismic surveys of these deepwater holdings were completed in 2001 and interpretation is expected to be completed in 2002.

Planned capital and exploration expenditures for 2002 are about \$700 million. Funds will be used for the current expansions underway at Cold Lake and Syncrude, development of the Alma field of the Sable Offshore Energy Project, and further development drilling in Western Canada.

Planned expenditures for exploration and development drilling, as well as capacity additions to conventional oil and gas operations, are expected to be about \$125 million.

Public consultations for an application for regulatory approval of another major expansion at Cold Lake were initiated in 2001. The proposed expansion would include three new phases (phases 14 to 16) and major extensions of two existing phases. When complete, phases 14 to 16 would add an average of 30,000 barrels a day to bitumen production over a 30-year period. With regulatory approval and favourable market conditions, the expansion could start production as early as 2007. Total estimated cost is about \$1 billion.

Proved reserves increased

Net proved reserves of crude oil and NGLs increased by 136 million barrels to 1,793 million barrels in 2001, up from 1,657 million the previous year (1999 – 1,680 million). Reserve additions of 230 million barrels associated with the next phase of Syncrude expansion more than offset production.

Net proved natural gas reserves decreased to 1,414 billion cubic feet from 1,572 billion at the end of 2000 (1999 – 1,692 billion). Reserve additions from extensions and discoveries were not sufficient to offset production.

Overall, Imperial replaced 196 percent of its total oil-equivalent production in 2001. At year-end, the company's total reserves on an oil-equivalent basis (assuming a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil) were two billion barrels.

Petroleum products

Earnings from petroleum products reached record levels, mainly as a result of improved industry margins through much of the year

Net earnings from petroleum products reached a record \$353 million in 2001, or 1.2 cents a litre, up from \$313 million or 1.1 cents a litre in 2000 (1999 – \$15 million or 0.05 cents a litre).

Improved industry margins were the principal factor in the increase. They were partly offset by increased costs for planned maintenance and higher environmental expenses. Return on capital employed was 16.1 percent, compared with 14 percent in 2000 (1999 – 0.6 percent).

Asset sales contributed \$4 million to earnings in 2001, compared with \$6 million in 2000 (1999 – \$12 million).

Revenues were \$14.4 billion, a decrease of five percent from \$15.1 billion the previous year (1999 – \$10.7 billion), largely as a result of lower average prices for refined products.

Average margins in both refining and marketing were higher in 2001 than the previous year. Refining margins began 2001 at near-record levels but declined sharply toward the end of the year in response to weakening demand and high inventory levels. Marketing margins recovered from the depressed levels of the previous year and remained relatively stable during much of 2001.

The company's total sales volumes, including supply agreements with other companies, were 81.2 million litres a day, compared with 80.3 million litres in 2000 (1999 – 80 million). Excluding supply agreements, sales were 69.6 million litres a day, the same as the previous year (1999 – 69.2 million).

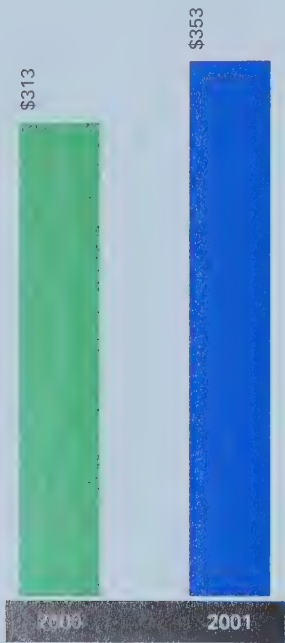
Total Canadian consumption of petroleum products, at about 258 million litres a day in 2001, was down nearly one percent from the previous year. Imperial continued to supply about 25 percent of total demand, retaining its position as the largest refiner and marketer of petroleum products in the country.

A major marketing initiative in 2001 was the introduction of *Speedpass*, a fast, convenient way of paying for purchases at retail service stations. By early 2002, *Speedpass* readers had been installed at about 630 stations in major markets across Canada.



Petroleum products

Factors affecting earnings from petroleum products
millions of dollars



- Positive factor**
- Higher product margins: \$188 million
- Negative factors**
- Higher expenses \$113 million
 - Tax adjustments: \$35 million

The company’s strategy is to increase sales through higher-margin Esso-branded channels and in the most profitable wholesale markets in Canada and the United States.

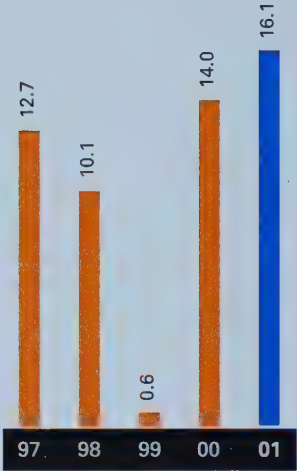
Total company sales of gasoline were 32.3 million litres a day, up one percent from the previous two years. Gasoline sales at Esso service stations were essentially unchanged from 2000.

Average throughput at company-owned service stations was 4.5 million litres a station, up from 4.2 million litres in 2000 (1999 – 4.2 million).

Sales of distillate products – which include heating oil, diesel fuel and jet fuel – declined by about four percent, to 26.5 million litres a day from 27.5 million litres in 2000 (1999 – 26.9 million). This reduction was proportional to the overall decline in demand for these products in Canada, which reflected lower economic activity and a reduction in air travel during the latter part of the year.

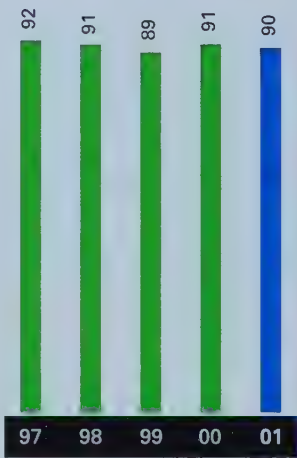
Sales of asphalt decreased in response to a reduction in overall demand for asphalt in Canada. Heavy fuel oil production and sales increased.

Petroleum products – return on average capital employed
percent



Returns from petroleum products have reached double-digit levels in four of the past five years.

Utilization of total refinery capacity
percent



Refinery utilization declined slightly as a result of a change in rated capacity.

Average refining margins

Canadian cents a litre
(New York Harbor product prices
minus Brent crude, reflects
Imperial's product mix)



Refining margins began 2001 at near-record levels but declined during the year as reduced economic activity caused markets to weaken.

Operating costs increased by 10 percent in 2001. The main reasons were higher planned refinery maintenance, increased environmental provisions and continued improvements to the company's network of retail service stations.

Refinery utilization declined slightly in 2001, mainly because of an increase in the rated capacity of the Strathcona refinery.

The company introduced a number of new products and services during the year. In response to new industry standards, all grades of Esso Protec Extra and Esso Protec Ultra motor oil were reformulated. The new oils offer a number of benefits, including significantly better fuel economy, reduced oil consumption and reduced piston deposits.

Late in the year, Imperial became the exclusive Canadian distributor of Mobil 1, the world's leading synthetic motor oil. The company also began supplying 164 Mobil lubricant products to commercial and industrial customers in Canada at the beginning of 2002, with further expansions in the product line planned.

All ISO 9000 ratings in the petroleum products business were maintained during the year.

The company continued to enhance its Win and Earn retail customer loyalty program in 2001, adding a number of major retailing partners to the program. The option of having customers redeem points for gasoline directly at retail service stations was also added during the year, as was an instant-win feature.

Another major marketing initiative during the year was the introduction of the *Speedpass* system, a fast, convenient and secure way of paying for purchases of fuel and convenience products. Enrolment in the program is free. Participants receive a small, lightweight transponder that fits easily on a key chain. To pay for purchases, the customer simply waves the transponder across a sensor at the pump or inside the store. The transaction is automatically charged to a credit card designated by the customer and Esso Extra points are credited to the customer's account. By early 2002, *Speedpass* readers had been installed at about 630 stations in major markets across Canada. More information on the program and an online application form are available through the company's Web site at www.imperialoil.ca.

During the year, the company's Avitat sales agencies, which provide products and services to private and corporate aircraft, once again received top marks from pilots in a survey of readers by *Professional Pilot* magazine. The Toronto Avitat facility was rated best operation of its type in Canada, while the Montreal Avitat ranked second.

Capital expenditures increased

Capital expenditures were \$339 million in 2001, compared with \$232 million in 2000 (1999 – \$203 million). Of that total, about \$170 million was invested in marketing operations, while about \$120 million was spent on refining operations.

In marketing, the company invested \$100 million in 2001 to strengthen its Esso service station network. This included building eight new sites and rebuilding and upgrading another 36 sites. One hundred and seventy-six company sites were closed or debranded.

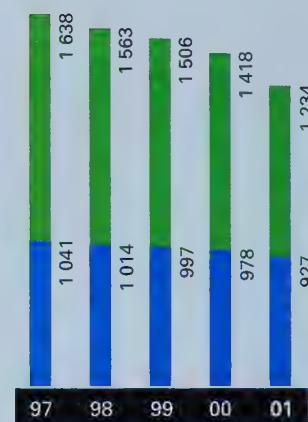
The company continued to expand the number of convenience stores associated with its retail gasoline network. A major initiative during 2001 was the introduction of a new identity for larger company-owned stores. These are being renamed "On the Run" to take advantage of advertising and other synergies from the global rebranding of this type of retail outlet by Exxon Mobil Corporation.

The balance of the marketing investment was used primarily on a program to increase the productivity of the company's rural agency marketing network by replacing small plants with fewer, more efficient distribution terminals. By the end of 2001, 12 new terminals had been built and 88 smaller bulk plants and other facilities closed. In regions where the consolidation process is largely complete, targets for customer retention and cost reduction are being met.

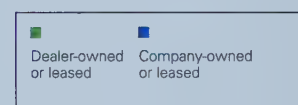
Refining investments were used for a variety of projects to improve energy efficiency and increase yield, as well as to reduce the sulphur content of gasoline.

Total capital expenditures in 2002 are estimated to be \$450 million. Major items include investments in refining facilities that will be required to meet the new federal standards for gasoline that come into force in 2005, and continued upgrading of the company's marketing network. Plans also include development of a cogeneration facility in Sarnia to more efficiently supply electricity and steam to the company's refining and manufacturing operations.

Esso service stations
average number



Imperial continued to close or debrand less-productive service stations, while investing \$100 million in the remaining network.



Service station throughput – company-owned and leased stations
millions of litres per site



Productivity at company-owned service stations increased by seven percent in 2001.

Financial statistics

millions of dollars	2001	2000	1999	1998	1997
Net earnings	353	313	15	244	284
Revenues	14 397	15 122	10 664	9 748	11 689
Capital expenditures					
Marketing	171	121	80	102	71
Refining and supply	118	100	114	78	96
Other	50	11	9	17	14
Total capital expenditures	339	232	203	197	181
Capital employed at December 31	2 119	2 261	2 201	2 440	2 378
Return on average capital employed (percent)	16.1	14.0	0.6	10.1	12.7

Sales of petroleum products

millions of litres a day	2001	2000	1999	1998	1997
Gasolines	32.3	32.0	31.9	31.8	31.2
Heating, diesel and jet fuels	26.5	27.5	26.9	25.4	26.2
Heavy fuel oils	5.4	5.1	4.6	6.2	5.1
Lube oils and other products	5.4	5.0	5.8	5.2	5.0
Net petroleum products sales	69.6	69.6	69.2	68.6	67.5
Sales under purchase and sale agreements	11.6	10.7	10.8	9.6	9.9
Total sales of petroleum products	81.2	80.3	80.0	78.2	77.4
Total domestic sales of petroleum products (percent)	93.4	94.0	95.6	96.0	95.1

Refinery utilization

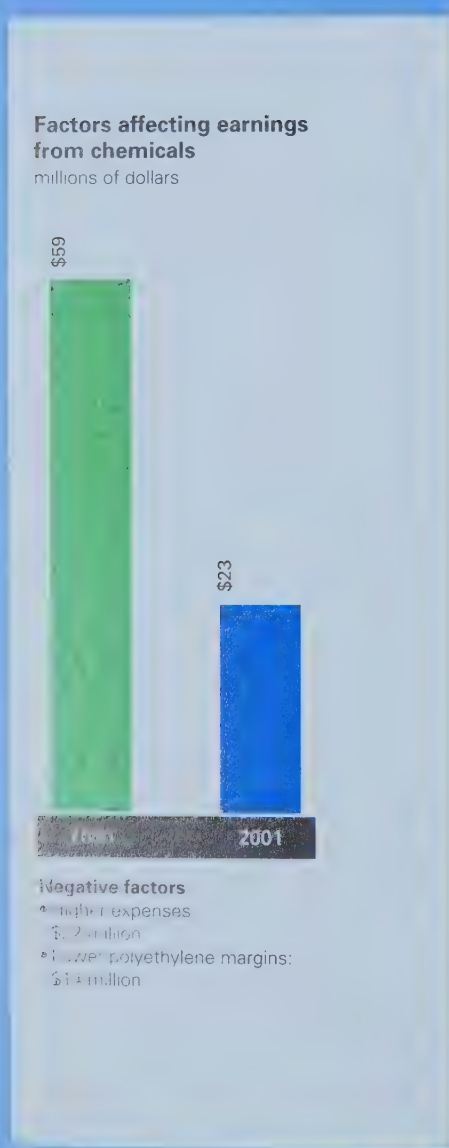
millions of litres a day	2001	2000	1999	1998	1997
Total refinery throughput (a)	71.4	71.6	70.1	70.7	71.3
Refinery capacity at December 31	79.1	78.7	78.7	77.8	77.8
Utilization of total refinery capacity (percent)	90	91	89	91	92

(a) Crude oil and feedstocks sent directly to atmospheric distillation units.

One thousand litres is approximately 6.3 barrels.

Chemicals

Earnings decreased, mainly because of reduced margins on polyethylene sales and a major program of planned maintenance



Earnings from the chemicals segment were \$23 million in 2001, down from \$59 million in 2000 (1999 – \$43 million). The main reasons for the reduction were reduced industry margins on sales of polyethylene, and a major planned maintenance program completed in the second quarter.

Return on average capital employed was 13.7 percent, compared with 53.4 percent in 2000 (1999 – 48.9 percent).

Total chemicals revenues were \$1,175 million, essentially unchanged from the previous year (1999 – \$872 million), as higher sales volumes were offset by lower prices.

The average industry polyethylene price was \$1,284 a tonne in 2001, down six percent from \$1,368 a tonne in 2000 (1999 – \$1,251). Margins on polyethylene sales declined in response to several factors. At the beginning of the year, record high prices for natural gas, which is used in the manufacture of polyethylene, caused margins to erode. In addition, weak market fundamentals placed pressure on margins throughout the year.

Sales of petrochemicals increased to 3,300 tonnes a day from 3,100 tonnes in 2000 (1999 – 3,000), largely because of increased resale volumes of polyethylene.

The chemicals business segment retained all of its ISO 9000 registrations during 2001.

Major maintenance completed

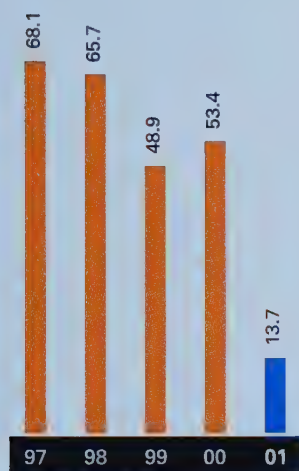
Operating costs increased by 20 percent in 2001, largely because of a major planned maintenance program at the company's ethylene cracker in Sarnia. Major maintenance on this unit is only required about once every seven years. The program was completed on schedule, under budget and with no safety or environmental incidents.

Capital expenditures in 2001 were \$30 million, up from \$13 million in 2000 (1999 – \$20 million). This included expenditures for the fifth phase of expansion of the polyethylene manufacturing capacity, which was completed in the fourth quarter of 2001, on schedule and on budget. The expansion increased capacity by about 15 percent. The company's Sarnia polyethylene plant remains one of the most cost-competitive in North America.

Planned expenditures in 2002 are about \$25 million.

Chemicals – return on average capital employed

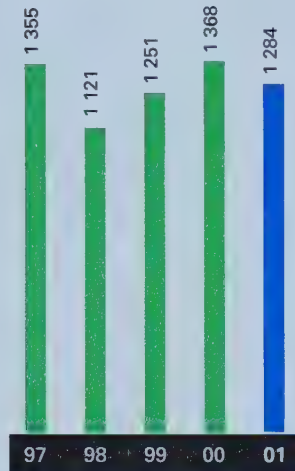
percent



Returns from chemical operations fell from the high levels of recent years, but remained within the company's double-digit target range.

Polyethylene – average industry prices

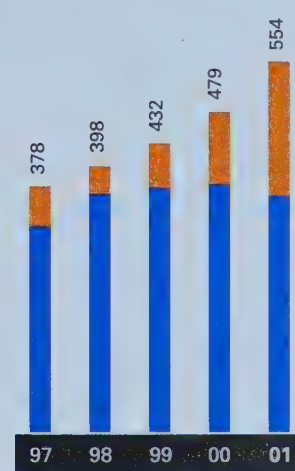
Canadian dollars a tonne



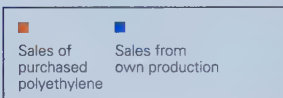
Polyethylene prices fell from the previous year as slowing economic growth caused markets to weaken.

Polyethylene sales volumes

thousands of tonnes



Total sales of polyethylene increased because of higher resales of purchased polyethylene.



Financial statistics

millions of dollars	2001	2000	1999	1998	1997
Net earnings	23	59	43	87	126
Revenues	1 175	1 173	872	972	1 166
Capital expenditures	30	13	20	17	25
Capital employed at December 31	195	140	81	95	170
Return on average capital employed (percent)	13.7	53.4	48.9	65.7	68.1

Sales volumes

thousands of tonnes a day	2001	2000	1999	1998	1997
Polymers and basic chemicals	2.4	2.2	2.0	2.4	2.2
Intermediates, Paramins and other	0.9	0.9	1.0	1.1	1.2
Total chemicals	3.3	3.1	3.0	3.5	3.4

One tonne is approximately 1.1 short tons or 0.98 long tons.

Management report

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information contained throughout this annual report is consistent with these financial statements.

Management has established and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the company's operating and financial results, and that the company's assets are safeguarded. The company's internal audit unit reviews and evaluates the adequacy of and compliance with the company's

internal control standards. It is also the company's policy to maintain the highest standard of ethics in all its activities.

Imperial's board of directors has approved the information contained in the financial statements. The board fulfills its responsibility regarding the financial statements mainly through its audit committee, which is composed of the unrelated directors and the controller and senior vice-president, finance and administration. The audit committee reviews the company's annual and quarterly financial statements, accounting practices, business and financial controls, and internal audit program and its findings. It also recommends to the directors the external auditors to be appointed by the shareholders at each annual meeting, reviews their audit work plan and approves their fees.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was appointed by a vote of shareholders at the company's last annual meeting to examine the consolidated financial statements and provide an independent professional opinion.



R.B. Peterson



T.J. Hearn

February 25, 2002

Auditors' report

To the shareholders of
Imperial Oil Limited

We have audited the consolidated statements of earnings and of cash flows of Imperial Oil Limited for each of the three years in the period ended December 31, 2001, and the consolidated balance sheets as at December 31, 2001, and 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the company for each of the three years in the period ended December 31, 2001, and its financial position as at December 31, 2001, and 2000, in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Ontario

February 25, 2002

Consolidated statement of earnings (a)

millions of dollars

For the years ended December 31	2001	2000	1999	1998	1997
Revenues					
Operating revenues	17 153	17 829	12 763	10 949	13 166
Investment and other income (note 2)	92	224	89	143	396
Total revenues	17 245	18 053	12 852	11 092	13 562
Expenses					
Exploration	45	35	28	37	40
Purchases of crude oil and products	10 126	10 774	7 090	5 669	7 263
Operating	3 135	2 846	2 776	2 722	2 853
Federal excise tax	1 180	1 194	1 188	1 190	1 157
Depreciation and depletion	716	724	734	704	747
Financing costs (note 11)	146	159	197	181	162
Total expenses	15 348	15 732	12 013	10 503	12 222
Earnings before income taxes	1 897	2 321	839	589	1 340
Income taxes on earnings (note 6)	653	901	329	232	525
Income tax refunds	—	—	—	(133)	—
Total income tax expense	653	901	329	99	525
Net earnings	1 244	1 420	510	490	815
Per-share information (dollars)					
Net earnings – basic (b)	3.16	3.40	1.18	1.12	1.76
Dividends	0.83	0.78	0.75	0.74	0.73

(a) See note 1 for details of business segment results.

(b) Per-share information is calculated by dividing net earnings by the average number of shares outstanding, weighted monthly.

The information on pages 34 through 43 is part of these consolidated financial statements. Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation.

Consolidated statement of cash flows

millions of dollars

inflow (outflow)

For the years ended December 31	2001	2000	1999	1998	1997
Operating activities					
Net earnings	1 244	1 420	510	490	815
Depreciation and depletion	716	724	734	704	747
(Gain)/loss on asset sales, after tax (note 2)	(7)	(96)	(17)	(47)	(179)
Future income taxes and other	38	(204)	(218)	(18)	(64)
Cash flow from earnings (a)	1 991	1 844	1 009	1 129	1 319
Accounts receivable	504	(358)	(124)	76	40
Inventories and prepaids	(11)	(6)	(16)	8	(77)
Income taxes payable	(408)	503	225	(178)	(372)
Accounts payable and other	(72)	106	376	(256)	83
Change in operating assets and liabilities	13	245	461	(350)	(326)
Cash from operating activities	2 004	2 089	1 470	779	993
Investing activities					
Additions to property, plant and equipment	(1 070)	(644)	(625)	(575)	(599)
Proceeds from asset sales (note 2)	46	274	88	213	968
Proceeds from marketable securities	–	116	59	79	42
Additions to marketable securities	–	(58)	(88)	(87)	(43)
Cash from (used in) investing activities	(1 024)	(312)	(566)	(370)	368
Cash flow before financing activities	980	1 777	904	409	1 361
Financing activities					
Short-term debt – net	385	75	–	–	–
Repayment of long-term debt	(379)	(68)	(379)	–	(91)
Common shares purchased (note 10)	(812)	(1 208)	–	(434)	(694)
Dividends paid	(322)	(331)	(319)	(326)	(343)
Cash used in financing activities	(1 128)	(1 532)	(698)	(760)	(1 128)
Increase (decrease) in cash	(148)	245	206	(351)	233
Cash at beginning of year	1 020	775	569	920	687
Cash at end of year (b)	872	1 020	775	569	920

(a) Includes dividends received from equity investments of \$10 million (2000 – \$14 million; 1999 – \$9 million).

(b) Cash is composed of cash in bank and cash equivalents at cost.

The information on pages 34 through 43 is part of these consolidated financial statements. Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation.

Consolidated balance sheet

millions of dollars

At December 31	2001	2000	1999	1998	1997
Assets					
Current assets					
Cash	872	1 020	775	569	920
Marketable securities	—	—	59	30	22
Accounts receivable	992	1 496	1 138	1 014	1 090
Inventories of crude oil and products (note 12)	478	421	451	438	466
Materials, supplies and prepaid expenses	116	162	125	122	102
Future income tax assets (note 6)	227	377	285	128	220
Total current assets	2 685	3 476	2 833	2 301	2 820
Investments and other long-term assets	139	127	172	167	203
Property, plant and equipment (note 1)	7 709	7 369	7 525	7 667	7 907
Goodwill (note 1)	204	232	260	288	315
Other intangible assets (note 1)	24	18	14	10	4
Total assets (note 1)	10 761	11 222	10 804	10 433	11 249
Liabilities					
Current liabilities					
Short-term debt	460	75	—	—	—
Accounts payable and accrued liabilities (notes 8 and 14)	1 793	1 868	1 733	1 418	1 736
Income taxes payable	774	1 182	666	441	594
Current portion of long-term debt	—	292	—	215	—
Total current liabilities	3 027	3 417	2 399	2 074	2 330
Long-term debt (note 3)	906	928	1 239	1 312	1 506
Other long-term obligations (note 4)	1 063	1 044	1 091	1 042	984
Future income tax liabilities (note 6)	1 336	1 512	1 641	1 757	1 914
Commitments and contingent liabilities (note 9)	—	—	—	—	—
Total liabilities	6 332	6 901	6 370	6 185	6 734
Shareholders' equity					
Common shares at stated value (note 10)	1 941	2 039	2 209	2 209	2 293
Net earnings retained and used in the business					
At beginning of year	2 282	2 225	2 039	2 222	2 290
Net earnings for the year	1 244	1 420	510	490	815
Share purchases (note 10)	(714)	(1 038)	—	(350)	(546)
Dividends	(324)	(325)	(324)	(323)	(337)
At end of year	2 488	2 282	2 225	2 039	2 222
Total shareholders' equity	4 429	4 321	4 434	4 248	4 515
Total liabilities and shareholders' equity	10 761	11 222	10 804	10 433	11 249

The information on pages 34 through 43 is part of these consolidated financial statements. Certain figures for prior years have been reclassified in the financial statements to conform with the current year's presentation.

Approved by the directors



R.B. Peterson
Chairman and
chief executive officer



P.A. Smith
Controller and senior vice-president,
finance and administration

Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Imperial Oil Limited and its subsidiaries. Intercompany accounts and transactions are eliminated. Subsidiaries include those companies in which Imperial has both an equity interest and the continuing ability to unilaterally determine strategic operating, investing and financing policies. Significant subsidiaries included in the consolidated financial statements include Imperial Oil Resources Limited, Imperial Oil Resources N.W.T. Limited, Imperial Oil Resources Ventures Limited and McColl-Frontenac Petroleum Inc. All of the above companies are wholly owned.

A significant portion of the company's activities in natural resources is conducted jointly with other companies. The accounts reflect the company's proportionate interest in such activities, including its 25-percent interest in the Syncrude joint venture and its nine-percent interest in the Sable Offshore Energy Project.

Segment reporting

The company operates its business in Canada in the following segments:

Natural resources includes the exploration for and production of crude oil and natural gas.

Petroleum products comprises the refining of crude oil into petroleum products and the distribution and marketing of these products.

Chemicals includes the manufacturing and marketing of various hydrocarbon-based chemicals and chemical products.

Corporate and other includes assets and liabilities that do not specifically relate to business segments – primarily cash, marketable securities and long-term debt. Net earnings in this category primarily include debt-related charges and interest income.

Segment accounting policies are the same as those described in this summary of significant accounting policies. Natural resources, petroleum products and chemicals operating expenses include amounts allocated from the “corporate and other” segment. The allocation is based on a combination of fee for service, proportional segment operating expenses and a three-year average of capital expenditures. Transfers of assets between segments are recorded at book amounts. Items included in capital employed that are not identifiable by segment are allocated according to their nature.

Inventories

Inventories are recorded at the lower of cost or net realizable value. The cost of crude oil and products is determined primarily using the LIFO (last-in, first-out) method. LIFO was selected over the alternative first-in, first-out and average cost methods because it provides a better matching of current costs with the revenues generated in the period.

Costs include purchase costs and other applicable operating expenses. Selling and general administrative expenses are excluded.

Investments

The principal investments in companies other than subsidiaries are accounted for using the equity method. They are recorded at the original cost of the investment plus Imperial's share of earnings since the investment was made, less dividends received. Imperial's share of the after-tax earnings of these companies is included in “investment and other income” in the consolidated statement of earnings. Other investments are recorded at cost. Dividends from other investments are recorded as income.

These investments represent interests in non-publicly traded pipeline companies that facilitate the sale and purchase of crude oil and natural gas in the conduct of company operations. Other parties who also have an equity interest in these companies are independent third parties that share in the risks and rewards according to their percentage of ownership. The company does not invest in these companies in order to remove liabilities from its balance sheet.

Property, plant and equipment

Property, plant and equipment are recorded at cost.

The company follows the successful-efforts method of accounting for its exploration and development activities. Under this method, costs of exploration acreage are capitalized and amortized over the period of exploration or until a discovery is made. Costs of exploration wells are capitalized until their success can be determined. If the well is successful, the costs remain capitalized; otherwise they are expensed. Capitalized exploration costs are reevaluated annually. All other exploration costs are expensed as incurred. Development costs, including the cost of natural gas and natural gas liquids used as injectants in enhanced (tertiary) oil-recovery projects, are capitalized.

Imperial selected the successful-efforts method over the alternative full-cost method of accounting because it provides a more timely accounting of the success or failure of exploration and production activities.

Maintenance and repair costs are expensed as incurred. Improvements that increase or prolong the service life or capacity of an asset are capitalized.

Investment tax credits and other similar grants are treated as a reduction of the capitalized cost of the asset to which they apply.

Depreciation and depletion (the allocation of the cost of assets to expense over the period of their useful lives) are calculated using the unit-of-production method for producing properties. Depreciation of other plant and equipment is calculated using the straight-line method, based on the estimated service life of the asset. In general, refineries are depreciated over 25 years; other major assets, including chemical plants and service stations, are depreciated over 20 years.

Gains or losses on assets sold are included in “investment and other income” in the consolidated statement of earnings.

Goodwill and other intangible assets

Goodwill is amortized to earnings on a straight-line basis over the period of expected continuing value. For goodwill, the amortization period is a maximum of 20 years. Other intangible assets are amortized over a maximum of 10 years. The amortization is included in "depreciation and depletion" in the consolidated statement of earnings. The evaluation for impairment of goodwill is based on a comparison of the carrying values of goodwill and associated operating assets with the estimated undiscounted net cash flows from those operating assets.

Site-restoration costs

Provision for site-restoration costs (net of any expected recoveries) is made if they can be reasonably determined. This provision is based on engineering estimates of costs, taking into account the anticipated method and extent of remediation consistent with legal requirements, industry practices, current technology and the possible use of the site. For natural resources assets, accruals are made over the useful life of the asset using the unit-of-production method. For other assets, a provision is made at the time management approves the sale or closure of a facility.

Foreign-currency translation

Monetary assets and liabilities receivable or payable in foreign currencies have been translated at the rates of exchange prevailing on December 31. Unrealized exchange gains and losses arising from the translation of long-term debt are deferred and amortized over the remaining term of the debt.

Financial instruments

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial asset is other than temporary, the financial asset is written down to its fair value. Unless otherwise indicated, the fair values of financial instruments approximate their recorded amounts.

The fair values of cash, marketable securities, accounts receivable and current liabilities approximate recorded amounts because of the short period to receipt or payment of cash. The fair value of the company's long-term debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the company for debt of the same duration to maturity. The fair values of other financial instruments held by the company are estimated primarily by discounting future cash flows, using current rates for similar financial instruments under similar credit risk and maturity conditions.

The company does not use financing structures for the purpose of altering accounting outcomes or removing debt from the balance sheet. The company's use of and method of accounting for derivative financial instruments are described in note 5 to the consolidated financial statements.

Revenues

Revenues associated with sales of crude oil, natural gas, petroleum and chemical products and other items are recorded when title passes to the customer. The company does not enter into ongoing arrangements whereby it is required to repurchase its products, nor does the company provide the customer with a right of return.

Revenues include amounts billed to customers for shipping and handling. Shipping and handling costs incurred up to the point of final storage prior to delivery to a customer are included in "purchases of crude oil and products" in the consolidated statement of earnings. Delivery costs from final storage to customers are recorded as a marketing expense in operating expenses.

Consumer taxes

Taxes levied on the consumer and collected by the company are excluded from the consolidated statement of earnings. These are primarily provincial taxes on motor fuels and the federal Goods and Services Tax.

Interest costs

Interest costs are expensed as incurred and included in "financing costs" in the consolidated statement of earnings.

Accounting principles

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. *Form 10-K*, filed with the United States Securities and Exchange Commission, includes a description of the differences between the generally accepted accounting principles (GAAP) in Canada and in the United States as they apply to the company.

The Canadian Institute of Chartered Accountants has issued new standards on accounting for foreign currency translation, accounting for goodwill and other intangible assets and on stock-based compensation and other stock-based payments. These standards will be adopted effective January 1, 2002. The standard on foreign currency translation, which eliminates the deferral and amortization of translation gains or losses, is to be adopted retroactively with restatement of prior-year earnings. Net earnings for 2001 would have been lower by \$18 million had the new standard been applied in the current year. Retroactive application is not permitted for the standard on goodwill and other intangible assets. The standard for goodwill and other intangible assets eliminates the amortization of goodwill. Adoption of that standard will reduce the goodwill amortization expense, thereby increasing net earnings by about \$15 million annually. The stock-based compensation standard, to be applied prospectively, is not expected to have an impact as the company currently accounts for its incentive compensation programs in accordance with the standard.

Notes to consolidated financial statements

1. Business segments

	Natural resources (a)			Petroleum products		
millions of dollars	2001	2000	1999	2001	2000	1999
Revenues						
External sales (c)	3 144	3 124	2 198	13 079	13 760	9 849
Intersegment sales	2 166	2 638	1 688	1 300	1 332	780
Investment and other income (note 2)	11	138	18	18	30	35
Total revenues	5 321	5 900	3 904	14 397	15 122	10 664
Expenses						
Exploration	45	35	28	—	—	—
Purchases of crude oil and products	2 444	2 586	1 660	10 497	11 513	7 487
Operating (d)	1 007	921	826	1 889	1 710	1 733
Federal excise tax	—	—	—	1 180	1 194	1 188
Depreciation and depletion (e) (f)	455	467	483	238	235	224
Financing costs	2	1	1	2	3	1
Total expenses	3 953	4 010	2 998	13 806	14 655	10 633
Earnings before income taxes	1 368	1 890	906	591	467	31
Income taxes (note 6)						
Current	556	815	427	125	281	191
Future	(129)	(90)	(81)	113	(127)	(175)
Total income tax expense	427	725	346	238	154	16
Net earnings	941	1 165	560	353	313	15
Cash flow from earnings	1 262	1 422	951	700	417	51
Capital and exploration expenditures	746	434	430	339	232	203
Property, plant and equipment						
Cost	10 733	10 067	10 007	5 469	5 287	5 144
Accumulated depreciation and depletion	5 839	5 412	5 210	2 842	2 748	2 599
Net property, plant and equipment	4 894	4 655	4 797	2 627	2 539	2 545
Total assets (f)	5 365	5 288	5 375	4 348	4 812	4 549
Total capital employed	2 590	2 168	2 510	2 119	2 261	2 201

- (a) A significant portion of activities in the natural resources segment is conducted jointly with other companies. The segment includes the company's proportionate share of joint-venture activities, as follows:

millions of dollars	2001	2000	1999
Total revenues	2 689	2 851	1 876
Total expenses	1 733	1 691	1 406
Net earnings, after income taxes	637	716	293
Total current assets	232	378	251
Long-term assets	2 750	2 705	2 912
Total current liabilities	919	1 023	481
Other long-term obligations	262	247	159
Cash flow from earnings	828	833	581
Cash flow from operating activities	850	912	601
Cash (used in) investing activities	(301)	(224)	(322)

- (b) Information is presented as though each segment were a separate business activity. Intersegment sales are made essentially at prevailing market prices. Consolidated amounts exclude intersegment transactions, as follows:

millions of dollars	2001	2000	1999
Purchases of crude oil and products	3 710	4 196	2 619
Operating expenses	1	2	4
Total intersegment sales	3 711	4 198	2 623
Intersegment receivables and payables	198	279	303

Chemicals			Corporate and other			Consolidated (b)		
2001	2000	1999	2001	2000	1999	2001	2000	1999
930	945	716	—	—	—	17 153	17 829	12 763
245	228	155	—	—	—	—	—	—
—	—	1	63	56	35	92	224	89
1 175	1 173	872	63	56	35	17 245	18 053	12 852
—	—	—	—	—	—	45	35	28
895	871	562	—	—	—	10 126	10 774	7 090
221	184	210	19	33	11	3 135	2 846	2 776
—	—	—	—	—	—	1 180	1 194	1 188
23	22	27	—	—	—	716	724	734
—	—	—	142	155	195	146	159	197
1 139	1 077	799	161	188	206	15 348	15 732	12 013
36	96	73	(98)	(132)	(171)	1 897	2 321	839
11	44	47	(13)	(18)	(63)	679	1 122	602
2	(7)	(17)	(12)	3	—	(26)	(221)	(273)
13	37	30	(25)	(15)	(63)	653	901	329
23	59	43	(73)	(117)	(108)	1 244	1 420	510
49	74	50	(20)	(69)	(43)	1 991	1 844	1 009
30	13	20	—	—	—	1 115	679	653
554	525	517	—	—	—	16 756	15 879	15 668
366	350	334	—	—	—	9 047	8 510	8 143
188	175	183	—	—	—	7 709	7 369	7 525
373	379	347	873	1 022	836	10 761	11 222	10 804
195	140	81	893	1 048	881	5 797	5 617	5 673

(c) Includes export sales to the United States, as follows:

millions of dollars	2001	2000	1999
Natural resources	1 265	1 477	1 041
Petroleum products	523	516	393
Chemicals	503	522	421
Total export sales	2 291	2 515	1 855

(d) Consolidated operating expenses include delivery costs from final storage to customers of \$244 million (2000 – \$238 million; 1999 – \$230 million).

(e) Includes \$28 million of goodwill charged to earnings in 2001 (2000 – \$28 million; 1999 – \$28 million). The accumulated amortization of goodwill at December 31, 2001, was \$351 million (2000 – \$323 million; 1999 – \$295 million). All goodwill has been assigned to the petroleum products segment. There have been no goodwill acquisitions, impairment losses or write-offs due to sales in the past three years.

(f) Total assets include amortized intangible assets, consisting primarily of acquired customer lists, as follows:

millions of dollars	2001	2000	1999
Cost	49	39	33
Accumulated amortization	25	21	19
Net intangible assets	24	18	14
Amortization expense	5	3	2
Customer lists acquired	11	6	6

Customer lists disposed of or retired in 2001 were \$1 million (2000 – \$1 million; 1999 – \$9 million). No gain or loss was recognized.

Notes to consolidated financial statements

2. Investment and other income

Investment and other income includes gains and losses on asset sales, as follows:

millions of dollars	2001	2000	1999
Proceeds from sale of assets (a)	46	274	88
Book value of assets sold (b)	36	135	66
Gain/(loss) on asset sales, before tax (c)	10	139	22
Gain/(loss) on asset sales, after tax (c)	7	96	17

(a) Proceeds in 1999 included a \$4-million long-term receivable.

(b) Assets sold did not include cash.

(c) Gains on asset sales in 2000 included an \$81-million (\$60 million after tax) gain from the sale of the company's 50-percent interest in Federated Pipe Lines Ltd. and the wholly-owned Cynthia pipeline. The company also realized a gain of \$44 million (\$25 million after tax) on the sale of its interest in the Mitsue and Pembina producing properties in Alberta.

3. Long-term debt

issued	maturity date	interest rate	2001 millions of dollars	2000 millions of dollars
Sinking-fund debentures (a)				
1989	October 15, 2019 (2001 – \$45 million (U.S.); 2000 – \$90 million (U.S.))	8 ³ / ₄	71	135
Other debentures and notes (a)				
1989	September 1, 2004 (2001 – \$600 million (U.S.); 2000 – \$600 million (U.S.)) (b)	Variable	956	900
Long-term debt (at period-end exchange rates)			1 027	1 035
Foreign-exchange loss on U.S. dollar debt (c)			121	107
Total long-term debt (d)			906	928

(a) No principal payments are due on sinking-fund debentures within the next five years; \$600 million (U.S.) of principal payments on other debentures and notes are due in 2004.

(b) This debt bears interest based primarily on U.S. commercial paper interest rates and may be repaid in part or in full at any time before maturity without premium. The average effective rate for 2001 was 4.2 percent (2000 – 6.6 percent).

(c) The foreign-exchange loss on U.S.-dollar debt is being amortized to earnings over the remaining life of the debt. This policy will change in 2002 (see "accounting principles" on page 35).

(d) The estimated fair value of the long-term debt at December 31, 2001, was \$1,030 million (2000 – \$1,040 million).

4. Other long-term obligations

millions of dollars	2001	2000
Employee retirement benefits (note 7) (a)	560	551
Site restoration (b)	415	413
Other obligations	88	80
Total other long-term obligations	1 063	1 044

(a) Total recorded employee retirement benefits obligations also include \$36 million in current liabilities (2000 – \$33 million).

(b) Total site restoration also includes \$92 million in current liabilities (2000 – \$57 million).

5. Derivative financial instruments

Derivatives are only used to reduce specific risk exposures of the company and are not held for trading purposes. Derivatives with leveraged features are not used.

The impact of price and foreign-exchange fluctuations on purchases and sales may be mitigated by selling and buying energy derivatives (primarily futures contracts and natural gas price swaps) and foreign-exchange forward contracts. These transactions are conducted on recognized commodities exchanges or with banks of the highest credit standing, and are normally settled in less than one year. Gains or losses on these contracts are recognized in earnings as a component of the related physical transaction.

No significant energy derivative or foreign-exchange forward contracts were transacted in the past three years.

A currency swap and an interest rate swap that were matched to a portion of a 9⁷/₈-percent (Canadian) debenture were settled when the debenture matured in 1999. Settlement of the swaps resulted in a loss of \$37 million (Canadian), of which \$9 million was included in 1999 earnings.

6. Income taxes

millions of dollars	2001	2000	1999
Current income tax expense	679	1 122	602
Future income tax expense (a)	(26)	(221)	(273)
Total income tax expense (b)	653	901	329
Statutory corporate tax rate (percent)	42.7	44.6	44.7
Increase/(decrease) resulting from:			
Non-deductible royalty payments to governments	7.9	8.1	14.6
Resource allowance in lieu of royalty deduction	(11.4)	(11.4)	(19.2)
Manufacturing and processing credit	(1.3)	(1.6)	(2.7)
Non-deductible depreciation and amortization	0.6	0.5	1.8
Tax rate changes on future income taxes	(2.1)	—	—
Other	(2.0)	(1.4)	—
Effective income tax rate	34.4	38.8	39.2

Components of future income tax liabilities and assets as at December 31 are:

millions of dollars	2001	2000
Depreciation and amortization	1 021	1 081
Successful drilling and land acquisitions	760	874
Pension and benefits	(195)	(210)
Site restoration	(191)	(187)
Net tax loss carryforwards (c)	(32)	(15)
Other	(27)	(31)
Total future income tax liabilities	1 336	1 512
LIFO inventory valuation	(177)	(330)
Other	(50)	(47)
Total future income tax assets	(227)	(377)
Net future income tax liabilities	1 109	1 135

- (a) The future income tax expense for the year is the difference in net future income tax liabilities at the beginning and end of the year.
(b) Cash income tax payments, plus investment credits earned, were \$1,086 million in 2001 (2000 – \$606 million; 1999 – \$377 million).
(c) The tax losses can be carried forward indefinitely.

The operations of the company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. The company believes the provision made for income taxes is adequate.

7. Employee retirement benefits

Retirement benefits, which cover almost all retired employees and their surviving spouses, include pension-income and certain health-care and life-insurance benefits. They are met through funded registered retirement plans and through unfunded supplementary benefits that are paid directly to recipients. Funding of registered retirement plans complies with federal and provincial pension regulations that require an actuarial valuation of the pension funds at least once every three years. The company makes contributions to the plans as required by those valuations.

Pension-income benefits consist mainly of company-paid defined benefit plans that are based on years of service and final average earnings. The company shares in the cost of health-care and life-insurance benefits. The company's benefit obligations are based on the projected benefit method of valuation that includes employee service to date and present pay levels, as well as a projection of salaries and service to retirement.

The expense and obligations for both funded and unfunded benefits are determined in accordance with Canadian generally accepted accounting principles and actuarial procedures. The process for determining retirement-income expense and related obligations includes making certain long-term assumptions regarding the discount rate, rate of return on plan assets and rate of pay increases. The discount rate is based on the year-end rate of interest on high-quality bonds. The discount rate was 6.75 percent at December 31, 2001 (2000 – 7.0 percent; 1999 – 7.25 percent). The return on plan assets was assumed to be 10 percent for each of the past three years. The assumed rate of pay increases at December 31, 2001, was 3.5 percent (2000 – 3.5 percent; 1999 – 3.5 percent).

The total obligation for employee retirement benefits at December 31, 2001, was \$3,571 million (2000 – \$3,367 million). The total obligation exceeded the fair value of plan assets at December 31, 2001, by \$1,181 million (2000 – \$693 million). The obligation and fair value of plan assets can vary significantly with changes in the assumptions used to estimate the obligation and the market performance of plan assets.

Notes to consolidated financial statements

Details of the employee retirement benefits plans are as follows:

Components of net benefit expense

millions of dollars	Pension benefits			Other post-retirement benefits		
	2001	2000	1999	2001	2000	1999
Current service cost	57	45	72	4	4	6
Interest cost	215	201	205	21	22	23
Expected return on plan assets	(257)	(259)	(246)	—	—	—
Amortization of prior service cost	23	25	18	—	—	—
Recognized actuarial (gain)/loss	—	(20)	33	—	1	7
Net expenses (a) (e)	38	(8)	82	25	27	36

millions of dollars	Pension benefits		Other post-retirement benefits	
	2001	2000	2001	2000
Change in benefit obligations:				
Benefit obligation at January 1	3 065	2 811	302	295
Current service cost	57	45	4	4
Interest cost	215	201	21	22
Amendments	30	34	—	—
Actuarial loss/(gain)	104	233	14	(2)
Other	—	(40)	—	—
Benefits paid	(223)	(219)	(18)	(17)
Benefit obligations at December 31 (b) (e)	3 248	3 065	323	302
Change in plan assets:				
Fair value of plan assets at January 1	2 674	2 741		
Actual return on plan assets	(95)	157		
Company contributions (c)	6	5		
Payments directly to participants	28	30		
Other	—	(40)		
Benefits paid	(223)	(219)		
Fair value of plan assets at December 31 (c)	2 390	2 674		
Excess (deficiency) of plan assets over benefit obligations	(858)	(391)	(323)	(302)
Unrecognized net actuarial (gain)/loss (d)	461	6	12	(2)
Unrecognized prior service cost (d)	112	105	—	—
Net liabilities recognized (note 4)	(285)	(280)	(311)	(304)

- (a) Additional benefit expenses include contributions, primarily to the employee savings plan, of \$23 million in 2001 (2000 – \$22 million; 1999 – \$21 million).
(b) Included in benefit obligations are unfunded defined benefit pension plans of \$276 million (2000 – \$275 million).
(c) Company contributions to the retirement plans are based on independent actuarial valuations and are made in accordance with government regulations. Pension fund assets are held primarily in broadly diversified equity, fixed-income and money-market securities.
(d) Unrecorded assets/(liabilities) are amortized over the average remaining service life of employees, which for 2002 and subsequent years is 13.5 years (2001 – 13.5 years; 2000 – 16.1 years).
(e) A one-percent change in the assumptions at which retirement liabilities could be effectively settled is as follows:

millions of dollars	Rate of return on plan assets and discount rate		Rate of pay increases	
	One-percent increase	One-percent decrease	One-percent increase	One-percent decrease
Effect on net benefit expense	(33)	32	13	(12)
Effect on benefit obligation	(370)	450	125	(110)

For measurement purposes, a five-percent health-care cost trend rate was assumed for 2001 and thereafter. A one-percent change in the assumed health-care cost trend rate would have the following effects:

millions of dollars	One-percent increase	One-percent decrease
Effect on service and interest cost components	2	(2)
Effect on other post-retirement benefit obligation	24	(21)

8. Incentive compensation programs

Incentive compensation in the form of incentive share units and earnings bonus units is granted to retain selected employees, reward them for high performance and promote individual contribution to sustained improvement in the company's business performance and shareholder value. Selected executives may also elect to receive deferred share units in lieu of cash performance bonus payments. Non-employee directors may elect to receive deferred share units in lieu of directors' fees. All units require settlement by cash payments. For deferred share units, a charge is made to expense in the year of grant equal to the cash performance bonus payment foregone. The company records expense for incentive share and deferred share units based on changes in the price of common shares in the year. Expense for earnings bonus units is recorded based on the cumulative net earnings per outstanding common share from issue date, up to the maximum settlement value for the units.

Incentive share units have value if the market price of the company's common shares when the unit is exercised exceeds the market value when the unit was issued. The issue price of incentive share units is the closing price of the company's shares on the Toronto Stock Exchange on the grant date. Up to 50 percent of the units may be exercised after one year from issuance; an additional 25 percent may be exercised after two years; and the remaining 25 percent may be exercised after three years. Incentive share units are eligible for exercise up to 10 years from issuance. The units may expire earlier if employment is terminated other than by retirement, death or disability.

In 2001, a total of 2,752,700 incentive share units were granted to 744 employees (2000 – 2,731,200 units to 756 employees; 1999 – 1,773,200 units to 749 employees). The total number of incentive share units outstanding at December 31, 2001, was 8,823,125 units (2000 – 7,071,265 units). The amount charged to expense in 2001 for incentive share units was \$51 million (2000 – \$67 million; 1999 – \$43 million). The obligation for incentive share units outstanding at December 31, 2001, was \$129 million (2000 – \$110 million).

In 1998, the deferred share unit plan was made available to selected executives whereby they could elect to receive all or part of their performance bonus compensation in units. The number of units granted is determined by dividing the amount of the bonus elected to be received as deferred share units by the average of the closing prices of the company's shares on the Toronto Stock Exchange for the five consecutive trading days immediately prior to the date that the bonus would have been paid. Additional units are granted based on the cash dividend payable on the company shares divided by the average closing price immediately prior to the payment date for that dividend and multiplying the resulting number by the number of deferred share units held by the recipient.

Starting in 1999, a similar deferred share unit plan was made available to nonemployee directors in lieu of receiving all or part of their directors' fees. The number of units granted to a nonemployee director is determined at the end of each calendar quarter by dividing the amount of directors' fees for the calendar quarter that the nonemployee director elected to receive as deferred share units by the average closing price of the company's shares immediately prior to the last day of the calendar quarter.

Deferred share units cannot be exercised until after termination of employment with the company or resignation as a director and must be exercised no later than December 31 of the year following termination or resignation. On exercise date, the cash value to be received for the units will be determined based on the average closing price of the company shares immediately prior to the date of exercise.

In 2001, a total of 15,222 deferred share units were granted to two executives and five nonemployee directors (2000 – 29,861 units to four executives and five nonemployee directors; 1999 – 20,181 units to four executives and five nonemployee directors). The total number of deferred share units outstanding at December 31, 2001, is 87,897 units (2000 – 72,675 units). The amount charged to expense in 2001 for deferred share units was \$1 million (2000 – \$2 million; 1999 – \$1 million). The obligation for deferred share units outstanding at December 31, 2001, was \$4 million (2000 – \$3 million).

Starting in 2001, the earnings bonus unit plan was made available to selected employees to promote individual contribution to sustained improvement in the company's business performance and shareholder value. Each earnings bonus unit entitles the recipient to receive an amount equal to the company's cumulative net earnings per common share as announced each quarter beginning after the grant. Payout occurs on the fifth anniversary of the grant or when the maximum settlement value per unit is reached, if earlier. Earnings bonus units may expire if employment is terminated other than by death or disability.

In November 2001, a total of 1,232,540 earnings bonus units were granted to 21 employees. The total number of earnings bonus units outstanding at December 31, 2001, was 1,232,540 units. Under the terms of the earnings bonus unit plan, no expense was recorded in 2001 and no obligation was outstanding at December 31, 2001.

Notes to consolidated financial statements

9. Commitments and contingent liabilities

At December 31, 2001, the company had commitments for noncancelable operating leases and other long-term agreements that require the following minimum future payments:

millions of dollars	2002	2003	2004	2005	2006	After 2006
Operating leases (a)	64	52	36	30	23	101
Other long-term agreements (b)	325	308	291	194	146	335

(a) Total rental expense incurred for operating leases in 2001 was \$122 million (2000 – \$115 million; 1999 – \$113 million). Operating lease commitments related to joint-venture activities are not material.

(b) Total payments under long-term agreements were \$443 million in 2001 (2000 – \$580 million; 1999 – \$415 million). Payments under other long-term agreements related to joint-venture activities are approximately \$50 million per year.

Other commitments arising in the normal course of business for operating and capital needs do not materially affect the company's consolidated financial position.

The company provides in its financial statements for site-restoration costs (see accounting policy on page 35). Provision is not made with respect to those manufacturing, distribution and marketing facilities for which estimates of these future costs cannot be reasonably determined. These are primarily currently operated sites. These costs (net of any expected recoveries) are not expected to have a material effect on the company's consolidated financial position.

Various lawsuits are pending against Imperial Oil Limited and its subsidiaries. The actual liability with respect to these lawsuits is not determinable, but management believes, based on the opinion of counsel, that any such liability will not materially affect the company's consolidated financial position.

10. Common shares

number of shares	2001	2000	1999
Authorized	450 000 000	450 000 000	450 000 000
Issued at December 31	379 159 147	398 263 375	431 475 233

Net earnings per share are calculated on the monthly weighted average number of shares outstanding during the period.

In 1995 through 2000, the company purchased shares under six 12-month normal course share purchase programs, as well as an auction tender. On June 21, 2001, another 12-month normal course program was implemented with an allowable purchase of 19.9 million shares (five percent of the total at June 19, 2001), less any shares purchased by the employee savings plan and company pension fund. The results of these activities are shown below:

Year	Purchased shares	Millions of dollars
1995–1998	150 049 063	3 136
1999	—	—
2000	33 211 858	1 208
2001	19 104 228	812
Cumulative purchases to date	202 365 149	5 156

Exxon Mobil Corporation's participation in the above maintained its ownership interest in Imperial at 69.6 percent.

The excess of the purchase cost over the stated value of shares purchased has been recorded as a distribution of retained earnings.

11. Financing costs

millions of dollars	2001	2000	1999
Debt-related interest	77	106	128
Other interest	4	4	4
Total interest expense (a)	81	110	132
Foreign-exchange expense on long-term debt (b)	65	49	65
Total financing costs	146	159	197

(a) Cash interest payments in 2001 were \$99 million (2000 – \$111 million; 1999 – \$135 million). The weighted-average interest rate on short-term debt in 2001 was 3.9 percent (2000 – 6.1 percent).

(b) In 2001, the company redeemed \$45 million (U.S.) of its 8¾-percent sinking-fund debentures for \$71 million (Canadian). The company also redeemed \$200 million (U.S.) of its maturing 8.3-percent debt for \$308 million (Canadian). These redemptions in 2001 resulted in a \$13-million foreign-exchange expense (\$10 million after tax). In 2000, the company redeemed \$45 million (U.S.) of its 8¾-percent sinking-fund debentures for \$68 million (Canadian), resulting in a \$12-million foreign-exchange expense (\$9 million after tax). In 1999, the company redeemed \$87 million (U.S.) of its 8¾-percent sinking-fund debentures for \$136 million (Canadian), resulting in a \$28-million foreign-exchange expense and call premium (\$18 million after tax).

12. Inventories of crude oil and products

In 2001, net earnings included an after-tax gain of \$18 million (2000 – \$25 million gain; 1999 – \$18 million gain) attributable to the effect of changes in LIFO inventories. The replacement cost of inventories was estimated to exceed their LIFO carrying values at December 31, 2001, by \$506 million (2000 – \$1,022 million).

13. Research and development costs

Research and development costs in 2001 were \$71 million (2000 – \$55 million; 1999 – \$69 million) before investment tax credits earned on these expenditures of \$6 million (2000 – \$6 million; 1999 – \$7 million). The net costs are included in expenses due to the uncertainty of future benefits.

14. Transactions with Exxon Mobil Corporation and affiliated companies (ExxonMobil)

Revenues and expenses of the company also include the results of transactions with ExxonMobil in the normal course of operations. These were conducted on terms as favourable as they would have been with unrelated parties, and primarily consisted of the purchase and sale of crude oil, petroleum and chemical products, as well as transportation, technical and engineering services. Effective November 15, 2000, the company entered into an agreement with ExxonMobil Canada to share common business and operational support services that allow the companies to consolidate duplicate work and systems. Transactions with ExxonMobil also include amounts paid and received in connection with the company's participation in a number of natural resources joint-venture operations in Canada. The amounts paid or received have been reflected in the statement of earnings as shown in the following table, and include transactions with Mobil Corporation and affiliated companies from November 30, 1999, the date when a wholly owned subsidiary of Exxon Corporation merged with Mobil Corporation so that Mobil became a wholly owned subsidiary of Exxon. At the same time, Exxon changed its name to Exxon Mobil Corporation.

Throughout 2000, the company purchased in the short-term money market Canadian-dollar commercial paper of an Exxon Mobil Corporation subsidiary. The notes were guaranteed by ExxonMobil. These promissory notes matured less than three months from purchase date and were replaced by similar short-term notes upon their maturity. The notes were replaced with Canadian-dollar commercial paper of non-related parties prior to December 31, 2000. Interest on the notes was at competitive Canadian interest rates. Interest earned on the notes in 2000 was \$23 million (1999 – \$1 million).

millions of dollars	2001	2000	1999
Operating revenues	734	680	351
Investment and other income	–	24	(1)
Purchases of crude oil and products	1 873	1 483	596
Operating expenses	96	104	85

Accounts payable due to Exxon Mobil Corporation at December 31, 2001, with respect to the above transactions were \$88 million (2000 – \$89 million; 1999 – \$106 million).

15. Net payments to governments

millions of dollars	2001	2000	1999
Current income tax expense (note 6)	679	1 122	602
Federal excise tax	1 180	1 194	1 188
Property taxes included in expenses	86	93	96
Payroll and other taxes included in expenses	47	41	42
GST/QST/HST collected (a)	1 749	1 818	1 329
GST/QST/HST input tax credits (a)	(1 384)	(1 376)	(950)
Other consumer taxes collected for governments	1 585	1 524	1 548
Crown royalties	460	623	347
Total paid or payable to governments	4 402	5 039	4 202
Less investment tax credits and other receipts	7	9	25
Net payments to governments	4 395	5 030	4 177
Net payments to:			
Federal government	2 160	2 455	1 979
Provincial governments	2 149	2 482	2 102
Local governments	86	93	96
Net payments to governments	4 395	5 030	4 177

(a) The abbreviations refer to the federal Goods and Services Tax, the Quebec Sales Tax, and the federal/provincial Harmonized Sales Tax, respectively. The HST is applicable in the provinces of Nova Scotia, New Brunswick and Newfoundland and Labrador.

Natural resources segment – supplemental information

Pages 44 and 45 provide information about the natural resources segment (see note 1, page 36). The information excludes items not related to oil and natural gas extraction such as administrative and general expenses, pipeline operations, gas plant processing fees and gains or losses on asset sales.

Results of operations

	Oil and gas			Syncrude			Total		
millions of dollars	2001	2000	1999	2001	2000	1999	2001	2000	1999
Sales to customers	1 306	1 427	745	–	–	–	1 306	1 427	745
Intersegment sales	767	971	797	741	679	556	1 508	1 650	1 353
Total sales (a)	2 073	2 398	1 542	741	679	556	2 814	3 077	2 098
Production expenses	551	515	486	395	331	261	946	846	747
Exploration expenses	45	35	28	–	–	–	45	35	28
Depreciation and depletion	409	419	434	46	44	48	455	463	482
Income taxes	333	550	221	92	124	83	425	674	304
Results of operations	735	879	373	208	180	164	943	1 059	537

Capital and exploration expenditures

	Oil and gas			Syncrude			Total		
millions of dollars	2001	2000	1999	2001	2000	1999	2001	2000	1999
Property costs (b)									
Proved	–	2	–	–	–	–	–	2	–
Unproved	5	15	–	–	–	–	5	15	–
Exploration costs	44	41	29	–	–	–	44	41	29
Development costs	489	250	216	208	125	184	697	375	400
Total capital and exploration expenditures	538	308	245	208	125	184	746	433	429

Property, plant and equipment

	Oil and gas		Syncrude		Total	
millions of dollars	2001	2000	2001	2000	2001	2000
Property costs (b)						
Proved	3 325	3 326	3	3	3 328	3 329
Unproved	157	159	5	5	162	164
Producing assets	4 699	4 557	1 419	1 364	6 118	5 921
Support facilities	117	115	212	186	329	301
Incomplete construction	458	122	163	42	621	164
Total cost	8 756	8 279	1 802	1 600	10 558	9 879
Accumulated depreciation and depletion	5 130	4 740	610	569	5 740	5 309
Net property, plant and equipment	3 626	3 539	1 192	1 031	4 818	4 570

- (a) Sales of crude oil to consolidated affiliates are at market value, using posted field prices. Sales of natural gas liquids to consolidated affiliates are at prices estimated to be obtainable in a competitive, arm's-length transaction. Total sales exclude the sale of natural gas and natural gas liquids purchased for resale, as well as royalty payments. These items are reported gross in note 1 in "Total revenues" and in "Purchases of crude oil and products".
- (b) "Property costs" are payments for rights to explore for petroleum and natural gas and for purchased reserves (acquired tangible and intangible assets such as gas plants, production facilities and producing-well costs are included under "Producing assets"). "Proved" represents areas where successful drilling has delineated a field capable of production. "Unproved" represents all other areas.

Net proved developed and undeveloped reserves (a)

	Crude oil and NGLs millions of barrels				Natural gas billions of cubic feet
	Conventional	Cold Lake	Syncrude	Total	
Beginning of year 1999	235	667	597	1 499	1 752
Revisions of previous estimates and improved recovery	17	—	—	17	29
(Sale)/purchase of reserves in place	—	—	—	—	(1)
Discoveries and extensions	—	250	—	250	63
Production	(27)	(39)	(20)	(86)	(151)
End of year 1999	225	878	577	1 680	1 692
Revisions of previous estimates and improved recovery	1	10	48	59	26
(Sale)/purchase of reserves in place	(5)	—	—	(5)	(5)
Discoveries and extensions	1	—	—	1	27
Production	(26)	(37)	(15)	(78)	(168)
End of year 2000	196	851	610	1 657	1 572
Revisions of previous estimates and improved recovery	(8)	—	—	(8)	9
(Sale)/purchase of reserves in place	—	—	—	—	1
Discoveries and extensions	—	—	230	230	2
Production	(23)	(44)	(19)	(86)	(170)
End of year 2001	165	807	821	1 793	1 414

(a) Net reserves are the company's share of reserves after deducting the shares of mineral owners or governments or both. All reported reserves are located in Canada. Reserves of natural gas are calculated at a pressure of 14.73 pounds per square inch at 60° F.

Crude oil and natural gas reserve estimates, excluding Syncrude, are based on geological and engineering data, which have demonstrated with reasonable certainty that these reserves are recoverable in future years from known reservoirs under economic and operating conditions existing at December 31 of the relevant year. Reserves of crude oil at Cold Lake are those estimated to be recoverable from the existing experimental pilot plants and commercial phases 1 through 13. The calculation of reserves of crude oil at Syncrude is based on the company's participating interest in the production permit granted in October 1979 and as subsequently amended by the Province of Alberta.

Net proved reserves are determined by deducting the estimated future share of mineral owners or governments or both. For conventional crude oil (excluding enhanced oil-recovery projects) and natural gas, net proved reserves are based on estimated future royalty rates representative of those existing at December 31 of the relevant year. Actual future royalty rates may vary with production and price. For enhanced oil-recovery projects, Syncrude and Cold Lake, net proved reserves are based on the company's best estimate of average royalty rates over the life of each project. Actual future royalty rates may vary with production, price and costs.

Reserves data do not include certain resources of crude oil and natural gas such as those discovered in the Beaufort Sea-Mackenzie Delta and the Arctic islands, or the resources contained in oil sands other than those attributable to Syncrude, the Cold Lake pilot area and phases 1 through 13 of Cold Lake production operations.

In 2001, Imperial's net proved reserves of crude oil and NGLs increased by 136 million barrels, while the proved reserves of natural gas decreased by 158 billion cubic feet. Production in 2001 totalled 86 million barrels of crude oil and NGLs and 170 billion cubic feet of natural gas. Revision of previous estimates and improved recovery decreased reserves of crude oil and NGLs by eight million barrels and increased reserves of natural gas by nine billion cubic feet. Purchases of reserves accounted for an increase of one billion cubic feet of natural gas. Discoveries and extensions in 2001 totalled 230 million barrels of crude oil and NGLs associated with the next phase of expansion at Syncrude, and two billion cubic feet of natural gas.

Share ownership, trading and performance

	2001	2000	1999	1998	1997
Share ownership					
Average number outstanding, weighted monthly (thousands)	393 121	417 753	431 475	438 636	462 138
Number of shares outstanding at December 31 (thousands)	379 159	398 263	431 475	431 475	447 985
Shares held in Canada at December 31 (percent)	15.9	16.6	17.6	17.7	18.1
Number of registered shareholders at December 31 (a)	16 483	17 104	17 941	18 396	18 459
Number of shareholders registered in Canada	14 358	14 873	15 650	15 966	16 057
Shares traded (thousands)	129 285	117 980	74 151	118 716	159 508
Share prices (dollars)					
High	46.50	42.25	36.00	30.50	30.77
Low	34.05	26.50	21.70	20.80	19.87
Close at December 31	44.31	39.45	31.00	24.55	30.67
Net earnings per share – basic (dollars)	3.16	3.40	1.18	1.12	1.76
Price ratios at December 31					
Share price to net earnings (b)	14.0	11.6	26.2	22.0	17.4
Share price to cash flow from net earnings (c)	8.7	8.9	13.3	9.5	10.7
Share price to cash from operating activities (d)	8.7	7.9	9.1	13.8	14.3
Dividends declared (e)					
Total (millions of dollars)	324	325	324	323	337
Per share (dollars)	0.83	0.78	0.75	0.74	0.73

- (a) Exxon Mobil Corporation owns 69.6 percent of Imperial's shares.
 (b) Closing share price at December 31, divided by net earnings per share.
 (c) Closing share price at December 31, divided by cash flow from earnings per share (page 1).
 (d) Closing share price at December 31, divided by cash from operating activities per share.
 (e) The fourth-quarter dividend is paid on January 1 of the succeeding year.

Information for security holders outside Canada

Cash dividends paid to shareholders resident in countries with which Canada has an income tax convention are usually subject to a Canadian nonresident withholding tax of 15 percent.

The withholding tax is reduced to five percent on dividends paid to a corporation resident in the United States that owns at least 10 percent of the voting shares of Imperial.

There is no Canadian tax on gains from selling shares or debt instruments owned by nonresidents not carrying on business in Canada.

Valuation day price

For capital gains purposes, Imperial's common shares were quoted at \$10.50 a share on December 31, 1971, and \$15.29 on February 22, 1994. Both amounts are restated for the 1998 three-for-one share split.

Quarterly financial and stock trading data (a)

	2001				2000			
	three months ended				three months ended			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Financial data (millions of dollars)								
Total revenues	4 722	4 813	4 180	3 530	4 066	4 230	4 592	5 165
Total expenses	4 063	4 249	3 771	3 265	3 609	3 742	3 968	4 413
Earnings before income taxes	659	564	409	265	457	488	624	752
Income taxes	277	150	150	76	188	203	250	260
Net earnings	382	414	259	189	269	285	374	492
Segmented earnings (millions of dollars)								
Natural resources	282	308	231	120	222	224	336	383
Petroleum products	120	116	42	75	51	63	49	150
Chemicals	1	6	7	9	18	17	12	12
Corporate and other	(21)	(16)	(21)	(15)	(22)	(19)	(23)	(53)
Net earnings	382	414	259	189	269	285	374	492
Per-share information (dollars)								
Net earnings – basic	0.96	1.04	0.66	0.50	0.63	0.67	0.90	1.20
Cash flow from earnings	1.41	1.33	1.11	1.21	0.82	0.96	1.05	1.58
Dividends (declared quarterly)	0.195	0.210	0.210	0.210	0.195	0.195	0.195	0.195
Share prices (dollars) (b)								
Toronto Stock Exchange								
High	40.10	43.50	46.50	46.15	34.10	39.55	41.50	42.25
Low	34.05	37.50	38.00	39.90	26.50	30.40	34.00	36.50
Close	38.45	38.85	42.75	44.31	30.00	36.15	39.00	39.45
American Stock Exchange (\$ U.S.)								
High	26.40	28.20	29.25	29.45	23.50	26.38	27.81	27.39
Low	22.59	23.65	24.73	25.08	17.94	20.81	23.00	24.00
Close	24.42	25.75	27.21	27.88	20.94	24.38	26.07	26.30
Shares traded (thousands) (c)	32 469	30 921	31 276	34 619	30 457	32 675	28 971	25 877

(a) Quarterly data has not been audited or reviewed by the company's independent auditors.

(b) Imperial's shares are listed on the Toronto Stock Exchange, and are admitted to unlisted trading on the American Stock Exchange in New York. The symbol on these exchanges for Imperial's common shares is IMO. Share prices were obtained from stock exchange records.

(c) The number of shares traded is based on transactions on the above stock exchanges.

Glossary of financial terms

Capital employed is short-term and long-term debt and shareholders' equity. Average capital employed is the average of the beginning-of-year and end-of-year amounts.

Cash represents cash as recorded in the books of account and cash equivalents at cost. Cash equivalents are all highly liquid securities with a maturity of three months or less when purchased.

Debt represents amounts borrowed from external sources. These amounts exclude unamortized foreign-exchange gains or losses on debentures and notes.

Marketable securities are securities of the governments of Canada and the provinces, banks and other corporations, with a maturity of longer than three months when purchased.

Net realizable value is the estimated selling price of an asset, less estimated costs of completion and disposal.

Future income taxes are based on differences between the book and tax values of assets and liabilities. These differences in value are remeasured at each period end using the tax rates and tax laws expected to apply when those differences are settled in the future. The largest source is the difference between book and tax depreciation and amortization, where deductions are made earlier for tax purposes than for accounting purposes.

Per-share information is calculated by dividing the respective nominal amounts by the average number of shares outstanding, weighted monthly.

Corporate governance

Imperial's board of directors and its management are committed to a high standard of corporate governance. We believe that effective corporate governance calls for the establishment of processes and

structures that contribute to the sound direction and management of the company's business, with a view to enhancing shareholder value. Under the rules of the Toronto Stock Exchange, Imperial

is required to disclose information relating to its system of corporate governance. This disclosure is contained in the management proxy circular issued in connection with the 2002 annual meeting.

Directors, senior management and officers

Directors

R.J. (Dick) Currie
President
George Weston Limited
Toronto, Ontario

P. (Pierre) Des Marais II
President
Gestion PDM Inc.
Montreal, Quebec

B.J. (Brian) Fischer
*Senior vice-president,
products and chemicals division*
Imperial Oil Limited
Toronto, Ontario

T.J. (Tim) Hearn
President
Imperial Oil Limited
Toronto, Ontario

R.B. (Bob) Peterson
*Chairman and
chief executive officer*
Imperial Oil Limited
Toronto, Ontario

J.F. (Jim) Shepard
*Retired chairman and
chief executive officer*
Finning International Inc.
Vancouver, British Columbia

P.A. (Paul) Smith
*Controller and senior vice-president,
finance and administration*
Imperial Oil Limited
Toronto, Ontario

S.D. (Sheelagh) Whittaker
Executive vice-president
EDS (Australia) Pty Limited
Canberra, Australia

K.C. (K.C.) Williams
*Senior vice-president,
resources division*
Imperial Oil Limited
Calgary, Alberta

L.R. (Red) Wilson
Chairman of the Board
Nortel Networks Corporation
Brampton, Ontario

Senior management and officers

R.B. (Bob) Peterson
*Chairman and
chief executive officer*

T.J. (Tim) Hearn
President

B.J. (Brian) Fischer
*Senior vice-president,
products and chemicals division*

P.A. (Paul) Smith
*Controller and senior vice-president,
finance and administration*

K.C. (K.C.) Williams
*Senior vice-president,
resources division*

J.F. (John) Kyle
Vice-president and treasurer

B.W. (Brian) Livingston
Vice-president and general counsel

J. (John) Zych
Corporate secretary

Dividend and share purchase information

	2nd quarter 2002	3rd quarter 2002	4th quarter 2002	1st quarter 2003
Declaration date	May 24, 2002	August 14, 2002	November 20, 2002	February 19, 2003
Dividend record date	June 6, 2002	September 3, 2002	December 3, 2002	March 4, 2003
Dividend payment date	July 1, 2002	October 1, 2002	January 1, 2003	April 1, 2003
Share purchase cutoff date (cheques for share purchase must be dated and received no later than)	June 14, 2002	September 17, 2002	December 13, 2002	March 18, 2003
Investment date (dividend reinvestment and share purchase funds are invested by the company on)	July 2, 2002	October 2, 2002	January 2, 2003	April 2, 2003

The declaration of dividends and the dates shown are subject to change by the board of directors.

The company reserves the right to amend, suspend or terminate the dividend reinvestment and share purchase plan at any time.

Share purchase cheques should be made payable to CIBC Mellon Trust Company.

Dividend cheques are normally mailed three to five days prior to payment dates.

Quarterly statements for dividend reinvestment and share purchase plan participants are normally mailed two weeks after the investment dates.

Information for investors

Head office

Imperial Oil Limited
111 St. Clair Avenue West
Toronto, Ontario, Canada M5W 1K3

Annual meeting

The annual meeting of shareholders will be held on Tuesday, April 23, 2002, at 11 a.m. local time at the Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, Canada.

Shareholder account matters

To change your address, transfer shares, eliminate multiple mailings, elect to receive dividends in U.S. funds or have dividends deposited directly into accounts at financial institutions in Canada that provide electronic fund-transfer services, or to enroll in the dividend reinvestment and share purchase plan, please contact CIBC Mellon Trust Company.

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Telephone: 1-800-387-0825
(from Canada or U.S.A.)

United States resident shareholders may transfer their shares through Mellon Investor Services LLC.

Mellon Investor Services LLC
P.O. Box 3310
South Hackensack, N.J.
07606-1910
Telephone: 1-800-526-0801

Dividend reinvestment and share purchase plan

This plan provides shareholders with two ways to add to their shareholdings at a reduced cost. The plan enables shareholders to reinvest their cash dividends in additional shares at an average market price. Shareholders can also invest between \$50 and \$5,000 each calendar quarter in additional shares at an average market price.

Funds directed to the dividend reinvestment and share purchase plan are used to buy existing shares on a stock exchange rather than newly issued shares.

Imperial online

Imperial's Web site contains a variety of corporate and investor information, including:

- current stock prices
- annual and interim reports
- Form 10-K
- *Information for Investors* (a factbook that describes the company and its operations in detail)
- investor presentations
- earnings and other news releases
- historical dividend information

www.imperialoil.ca

Investor information

Information is also available by writing to the investor relations manager at Imperial's head office or by:

Telephone: 416-968-8145

Fax: 416-968-5345

Other contact numbers

Customer and other inquiries

Telephone: 1-800-567-3776

Fax: 1-800-367-0585

Corporate secretary

Telephone: 416-968-4713

Fax: 416-968-4095

Version française du rapport

Pour obtenir la version française du rapport de la Compagnie Pétrolière Impériale Ltée, veuillez écrire à la division des Relations avec les investisseurs, Compagnie Pétrolière Impériale Ltée, 111 St. Clair Avenue West, Toronto, Ontario, Canada M5W 1K3.

Imperial Oil Limited
111 St. Clair Avenue West
Toronto, Ontario
Canada M5W 1K3

www.imperialoil.ca



This report is printed on 50-percent recycled paper that includes 20-percent post-consumer waste, and has been printed and bound to facilitate recycling.